

# City of Conway, Arkansas



## **General Purpose Financial Statements and Supplemental Schedules With Independent Auditors' Reports**

**For the year ended  
December 31, 2009**

# **CITY OF CONWAY, ARKANSAS**

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# City of Conway

Finance Department

City Hall

1201 Oak Street

Conway, AR 72032

513-3500

October 19, 2010

To the Honorable Mayor, Members of Council and Citizens of the City of Conway, Arkansas:

Arkansas state law allows cities to choose to publish a set of basic financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and generally accepted auditing standards by a firm of licensed certified public accountants. Accordingly, we hereby issue the annual financial report of the City of Conway, Arkansas for the fiscal year ended December 31, 2009.

The City's financial statements have been audited by Jeffrey Phillips Mosley & Scott, P.A., a firm of licensed certified public accountants. Jeffrey Phillips Mosley & Scott, P.A. conducted the single audit, as required under OMB Circular A-133, *Audits of States, Local governments and Non-Profit Organizations*.

This report is presented to fairly present the financial position and results of operations as measured by the financial activities of the various City funds. Responsibility for both the accuracy of the data and the completeness and fairness of the presentations rests with management of the City. Internal accounting controls provide reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements and supporting schedules. There are inherent limitations to internal accounting controls including cost considerations, management decisions that may override and risk of collusion. However, the data presented is believed accurate in all material respects. All disclosures necessary to ensure clear communication to the reader have been provided. This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

This report, which can be obtained by calling the Finance Department at (501) 513-3500, or via the City's website at <http://www.cityofconway.org>, is prepared in accordance with GAAP in conformance with the standards for financial reporting set forth by the Government Accounting Standards Board (GASB), using the guidelines recommended by the Government Finance Officers Association (GFOA).

## PROFILE OF THE CITY

The City of Conway was first incorporated in 1875 and subsequently incorporated as a city of the first class in 1930. The City is located in the central part of the State of Arkansas and is a part of the Little Rock/North Little Rock metropolitan area. The City has enjoyed considerable growth in recent years and the most recent special census documented the population at 52,430. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically by City Council action.

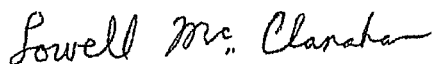
The City operates under the Mayor/City Council form of government. Policy-making and legislative authority are vested in a governing board consisting of the Mayor and eight council members. The Council is responsible for passing ordinances, adopting budgets and appointing committees. The Mayor is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City is divided into four wards, each represented by two council members – one elected at large and one elected ward specific, with staggered four-year terms. The Mayor is a full-time position, elected at-large for a four-year term.

The City provides a full range of municipal services, including administration of zoning, community development, fire and police, refuse collection, airport facilities, street construction and repair and traffic systems. Additionally, District Court operation and management of recreational facilities and programs are included. The City is financially accountable for a legally separate entity which operates the city-owned utilities, which is reported separately within the City's financial statements.

The annual budget is the City's prime financial planning and control tool. All departments are required to submit requested budgets as the starting point for the Mayor's proposed budget. The City Council must adopt a final budget by February 1. The City's appropriated budget is prepared by fund and department.

Conway has continued to experience growth during this period of national economic difficulty. Demand for service continues even though revenue growth has slowed. Sales tax, which accounts for 55.7% of revenue to the General Fund, declined in 2009 by about 1%. Bond funding has allowed for completion of several recreational facilities throughout the city. Conway provides a wonderful lifestyle to its residents.

Respectfully submitted,



Lowell McClanahan  
Chief Financial Officer (Interim)

## **FINANCIAL SECTION**



**JPMS | Cox**

ACCOUNTANTS & CONSULTANTS

BRYAN S. JEFFREY

JIM L. PHILLIPS

DAVID L. MOSLEY

GARY D. COOPER

PHILLIP W. COX

STEVEN G. BOOTH

MALLORY S. TAYLOR

MARY ELLEN VANGILDER

## **INDEPENDENT AUDITORS' REPORT**

**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, (the "City") as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Conway Corporation or the City of Conway Advertising and Promotion Commission, the discretely presented component units. The financial statements of those entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, as of December 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2010, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as well as the budgetary and pension information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Conway, Arkansas' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

JEFFREY, PHILLIPS, MOSLEY & SCOTT, P.A.

October 21, 2010



# **City of Conway**

**Finance Department**

**City Hall**

1201 Oak Street

Conway, AR 72032

513-3500

## **Management's Discussion and Analysis**

This section of the report provides the reader with management's view of the 2009 results. Its function is to focus on the City's primary government and, unless otherwise noted, the component units reported separately from the primary government are not included.

### **Financial Highlights**

- The General Fund reported a fund balance of \$3,022,655 at the end of 2009. This was a decrease of \$2,242,919 from 2008.
- The City's total net assets increased \$6,356,386 in 2009. Net assets of the governmental activities increased \$5,750,568, or 5.1%, as compared to beginning net assets, and net assets of the business type assets increased \$605,818, which represents a 7.3% increase from 2008.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$21,749,282. The combined governmental funds balance decreased \$10,161,679 from the prior year's ending fund balance. At December 31, 2009, \$9,729,446 of the \$21,749,282 fund balance was considered unreserved.
- The decrease in the City's total governmental activities long-term obligations of \$620,396 (1.5%) during the current fiscal year is primarily due to debt service exceeding new debt to finance City improvements. The City's business-type activities long-term obligations increased by \$181,733 (4.1%) during 2009 and are attributable to the liability for landfill closure and post closure costs and compensated absences.
- Net assets of fiduciary funds were \$6,661,590 at December 31, 2009 and represent assets held in trust for pension benefits. There was a decrease of \$6,737,764 in the total fiduciary net assets held in trust during the year. Fire and Police pensions were transferred to the Local Police and Fire Retirement System (LOPFI) on December 30, 2009.
- The City's component units reported net assets of \$222,752,662 as of December 31, 2009, an increase of \$5,801,521 compared to December 31, 2008 net assets of \$216,951,141.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all, or a significant portion, of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administration, airport, cemeteries, Community Development Block Grant (CDBG), fire, highways and streets, parks and recreation, law enforcement and sanitation surcharge activities. The business-type activities of the City are the operations of the sanitation department.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate corporation which operates city-owned utilities and the City's Advertising and Promotion Commission, both for which the City is financially accountable. Financial information for these component units are reported separately from the financial information presented for the primary government. Presented as a combined total on the government-wide financial statements, combining statements are also included in this report. The government-wide financial statements can be found on pages 16-17 of this report.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near

term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, the street fund, the debt service fund, the other special revenue fund and the capital projects fund, all of which are considered by the City to be major funds. Data from the other four governmental funds (asset forfeiture, grant, CDBG, and police equipment) are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget for its general fund, street fund and other special revenue fund. A budgetary comparison statement for each has been provided on pages 65-67 to demonstrate compliance with the budgets.

The basic governmental fund financial statements can be found on pages 18-19 of this report.

**Proprietary funds** – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for the maintenance of its fleet of vehicles. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 21-23 of this report. Combining statements are not presented since the City has only one enterprise fund and one internal service fund.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 24-25 of this report.

**Discretely Presented Component Units** – Combining statements for the City’s discretely presented component units are included in the basic financial statements and can be found on pages 26-27 of this report.

**Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-62 of this report.

**Required Supplementary Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s progress in funding its obligation to provide pension benefits to its employees and its schedule of employer contributions. Also included as required supplementary information are budget to actual schedules for the general fund, the street fund and the other special revenue fund. Required supplementary information can be found on pages 63-68 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the City’s financial position. In the case of the City, assets exceeded liabilities by \$127,982,036 as of December 31, 2009.

The City’s net assets reflecting its investment in capital assets (e.g., land, buildings, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding, comprised approximately 90% of total net assets at year end. The City uses these capital assets to provide services to citizens; consequently, those assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate those liabilities. The net assets invested in capital assets, net of related debt, increased \$8,579,780 during the year. This increase was primarily the result of land purchase, infrastructure, vehicles and equipment for police, vehicles for fire, street and sanitation departments.

Restricted net assets totaling \$14,508,209 comprised 11% of the City’s net assets at December 31, 2009, decreased \$8,847,631 as compared to 2008. The most significant change was due to resources provided by bond proceeds, reduced significantly during 2009. The remaining unspent bond proceeds will provide funding for infrastructure improvements; expansion, acquisition and construction of park facilities; and improvements at an industrial site during 2010.

Unrestricted net assets increased \$8,642,983 to a deficit of \$1,600,982 during 2009, primarily as a result of restrictions on net assets for capital projects and debt. Converting bond proceeds to capital structures reduced the deficit.

At the end of the current fiscal year, the City has positive balances in net assets invested in capital assets, net of related debt and in net assets, restricted, in total and for governmental activities and business-type activities. Both governmental activities and business-type activities reported a deficit balance in unrestricted net assets at year end.

The City's net assets increased by \$6,356,387 during the year and the net assets of the discretely presented component units added \$5,801,521.

### **City of Conway, Arkansas' Net Assets**

#### **Governmental Activities**

Governmental activities increased the City's net assets by \$5,750,568, thereby accounting for 90% of total growth in net assets of the City. Increases in net capital assets of \$16,129,675 were offset by a decrease in current and other assets of \$11,312,838, a decrease in current liabilities of \$2,264,322 and an increase in long-term liabilities of \$3,317,492.

Sales tax represented 68% of the City's governmental revenue in 2009. Property tax, franchise taxes and state turn back tax revenue contributed 9%, 9%, and 10%, respectively, of the City's 2009 governmental revenue and are comparable to the prior year. The sales tax percentage is larger due to the inclusion of bond sales tax in this calculation. Current year expenses were 106% of current year revenues at \$35,058,046, excluding money advanced for the new airport.

**City of Conway, Arkansas's Net Assets**

	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Current and other assets	\$ 29,127,600	\$ 40,017,965	\$ 3,142,544	\$ 3,565,017	\$ 32,270,144	\$ 43,582,982
Capital assets	134,089,199	118,719,709	8,630,925	7,870,740	142,720,124	126,590,449
Other noncurrent assets	<u>—</u>	<u>—</u>	<u>2,488,373</u>	<u>2,001,993</u>	<u>2,488,373</u>	<u>2,001,993</u>
Total assets	<u>\$163,216,799</u>	<u>\$158,737,674</u>	<u>\$14,261,842</u>	<u>\$13,437,750</u>	<u>\$177,478,641</u>	<u>\$172,175,424</u>
Current liabilities	\$ 10,977,344	\$ 8,749,563	\$ 773,881	\$ 737,340	\$ 11,751,225	\$ 9,486,903
Long-term liabilities	<u>33,174,445</u>	<u>36,673,670</u>	<u>4,570,935</u>	<u>4,389,202</u>	<u>37,745,380</u>	<u>41,062,872</u>
Total liabilities	<u>\$ 44,151,789</u>	<u>\$ 45,423,233</u>	<u>\$ 5,344,816</u>	<u>\$ 5,126,542</u>	<u>\$ 49,496,605</u>	<u>\$ 50,549,775</u>
Net assets:						
Invested in capital assets, net of related debt	\$106,443,884	\$ 98,624,289	\$ 8,630,925	\$ 7,870,740	\$115,074,809	\$106,495,029
Restricted	12,019,836	21,930,631	2,488,373	2,001,993	14,508,209	23,932,624
Unrestricted	<u>601,290</u>	<u>(7,240,478)</u>	<u>(2,202,272)</u>	<u>(1,561,525)</u>	<u>(1,600,982)</u>	<u>(8,802,003)</u>
Total net assets	<u>\$119,065,010</u>	<u>\$113,314,442</u>	<u>\$ 8,917,026</u>	<u>\$ 8,311,208</u>	<u>\$127,982,036</u>	<u>\$121,625,650</u>

**Expenses and Program Revenues – Governmental Activities**

**Business-type Activities**

Business-type activities increased the City's net assets by \$605,818, thereby accounting for 10% of total growth in net assets of the City. Increases in net capital assets of \$760,185 and other noncurrent assets of \$486,380 were partially offset by a decrease in current and other assets of \$422,473, an increase in current liabilities of \$36,541 and an increase in long term liabilities of \$181,733.

## **Revenues by Source – Business-type Activities**

### **Financial Analysis of the Government's Funds**

The City uses fund accounting to demonstrate compliance with finance-related legal requirements.

**Government funds** – The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances in spendable resources. This information is useful in assessing the City's financing requirements. Unreserved fund balance serves as a measure of the City's net resources available for spending at the end of 2009. City governmental funds reported combined ending fund balances of \$21,749,282, a decrease of \$10,161,679 from 2008. Approximately 44% of this total amount (\$9,729,446) is unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved indicating that it is not available for spending because it has already been committed for debt service and capital projects.

The general fund is the chief operating fund of the City. At the end of 2009, unreserved fund balance of the general fund was \$3,022,655. Unreserved fund balance represents 6% of total general fund expenditures (as compared to 15.5% in 2008). The City's general fund balance decreased \$2,242,919 in 2009. Sales tax decreased from 2008 by about 1%. Sales tax was expected to grow 4% in 2009 and the reduction caused a 5% or \$736,292 negative impact in City revenue relative to budget. Personnel cost comprises the majority of City expenditures. In 2009, law enforcement officers transitioned to 12 hour shifts adding about \$400,000 to expense. Capital outlay for City programs totaled \$21,700,603 during the year.

The street fund balance is \$2,356,349 at December 31, 2009. The net increase in fund balance during 2009 totaled \$1,805,703. Street revenue (primarily state turn back) continued to show positive growth. Operating costs increased by \$599,310. Street impact fee and other revenue led to \$1 million in infrastructure improvements during the year. Street expenditures during 2009, excluding capital outlays and debt service payments, represent 75% of revenue, up from 66% in 2008.

The debt service fund has a total fund balance of \$2,604,053, all of which is reserved for the payment of note and bond obligations. At December 31, 2009, the City had \$30,030,000 in bonds outstanding from its bond issues, all of which are secured through the pledge of specific revenues.

The other special revenue fund has a total fund balance of \$4,122,652 at December 31, 2009. The net increase in fund balance during the year totaled \$125,830. This fund generates revenue from impact fees, dedicated ad valorem tax, restaurant gross receipts tax, and dedicated court fines and fees which provide financing of capital outlays for parks and recreation and streets and highways and for debt service on specific borrowings. The increase in fund balance during 2009 is primarily related to the timing difference between when revenue is received and improvement projects are initiated.

The capital projects fund has a total fund balance of \$9,415,783 at December 31, 2009, which is a decrease of \$9,673,608 and is related to spending on several ongoing projects. Substantial capital outlay was used in 2009 on the new baseball complex and the relocation of the fairgrounds. Dedicated sales tax revenue provided \$2,889,084 to fund pay-as-you-go projects for fire and street projects, a decrease of 1% from 2008 revenue.

### **General Fund Budgetary Highlights**

The final amended General Fund budget had total appropriation of \$5,400,820 more than the original budget. The total original appropriations were \$24,121,702, and the final appropriations were \$29,522,522.

#### **City of Conway, Arkansas**

##### **General Fund Budget to Actual - Revenue**

Revenues	<u>Original</u>	<u>Adjustments</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Sales taxes	\$14,962,140	\$ —	\$14,962,140	\$14,225,848	\$(736,292)
General property taxes	1,421,688	—	1,421,688	1,481,035	59,347
Licenses and permits	478,500	18,929	497,429	1,119,392	621,963
Intergovernmental	1,187,000	3,115,317	4,302,317	3,159,007	(1,143,310)
Fines and fees	1,828,500	—	1,828,500	707,290	(1,121,210)
Franchise fees	3,288,874	—	3,288,874	3,082,796	(206,078)
Investment income and unrealized gains, net	125,000	—	125,000	61,200	(63,800)
Miscellaneous	<u>460,000</u>	<u>3,737,131</u>	<u>4,197,131</u>	<u>1,699,449</u>	<u>(2,497,682)</u>
Total revenues	<u>\$23,751,702</u>	<u>\$6,871,377</u>	<u>\$30,623,079</u>	<u>\$25,536,017</u>	<u>\$(5,087,062)</u>



General Fund Budget to Actual - Expenditures

Expenditures	<u>Original</u>	<u>Adjustments</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Law enforcement	\$10,387,921	\$ 364,084	\$10,752,005	\$11,301,197	\$ (549,192)
Fire	7,171,286	141,976	7,313,262	7,262,418	50,844
General administration	3,653,891	763,067	4,416,958	3,813,767	603,191
Parks & recreation	2,353,557	135,651	2,489,208	2,006,616	482,592
Airport	25,500	2,163,566	2,189,066	28,017	2,161,049
Capital outlay	<u>529,547</u>	<u>1,832,476</u>	<u>2,362,023</u>	<u>2,389,627</u>	<u>(27,604)</u>
Total general fund expenditures	<u>\$24,121,702</u>	<u>\$5,400,820</u>	<u>\$29,522,522</u>	<u>\$26,801,642</u>	<u>\$ 2,720,880</u>
Excess (deficiency) of revenues over expenditures	(370,000)	1,470,557	1,100,557	(1,265,625)	(2,366,182)
<b>Other Financing Sources (Uses)</b>					
Transfers in	370,000	2,224,619	2,594,619	628,123	(1,966,496)
Transfers out	<u>—</u>	<u>(3,759,750)</u>	<u>(3,759,750)</u>	<u>(1,605,417)</u>	<u>2,154,333</u>
Total other financing uses	<u>370,000</u>	<u>(1,535,131)</u>	<u>(1,165,131)</u>	<u>(977,294)</u>	<u>187,837</u>
Excess (deficiency) of revenues over expenditures	<u>\$ —</u>	<u>\$ (64,574)</u>	<u>\$ (64,574)</u>	<u>\$ (2,242,919)</u>	<u>\$(2,178,345)</u>

## **Capital Asset and Debt Administration**

**Capital Assets** – The City’s investment in capital assets for its governmental and business-type activities as of December 31, 2009, reached \$142,720,124 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and infrastructure. The net increase in the City’s investment during 2009 was 13%.

Major capital asset events during 2009 included:

- Governmental activity capital assets increased by \$15.4 million. Major projects included were the new baseball complex, new fairgrounds, and infrastructure improvements to North Salem Road and Meadows Technology Park, and infrastructure improvements funded by the street impact fee receipts.
- Business-type activity capital net assets grew \$760,000.

Balances remained on construction contracts for projects which were in process, but uncompleted, at December 31, 2009. Please see Note 5 on pages 39-41 of this report for additional information on City capital assets, including the increases and decreases of each asset category.

**Long-term Debt** – At December 31, 2009, the City had total long-term liabilities of \$37,745,380. Of this amount 72% (\$27,330,000) was the remaining long-term balance of the \$9.8 million Sales and Use Tax Refunding Bonds, Series 2006A, \$7.5 million Sales and Use Tax Capital Refunding and Improvement Bonds, Series 2006, \$14.1 million Restaurant Gross Receipts Tax Capital Improvement Bonds, Series 2007 and the \$2.2 million Electrical Franchise Fee Revenue Bonds. Arkansas state statutes limit the amount of general obligation debt secured by property tax receipts that a city may issue to 20 percent of its total assessed valuation. The current debt limitation for the City is approximately \$192 million. Because the City’s bond issues are all special obligations secured by pledged receipts from sales tax, franchise fees and restaurant gross receipt taxes, the City’s bonds payable outstanding does not constitute an indebtedness of the City within the meaning of the statutory debt limitation. The City is allowed to issue short-term financing (maturities of less than five years) for up to 5% of total assessed valuation. Outstanding short-term financings at December 31, 2009, of \$4.1 million are well below the statutory limit. Additional information on the City’s long-term liabilities can be found in Note 10 on pages 53-58 of this report.

## **Economic Factors and the 2010 Budget**

The national economic environment during preparation of the 2009 budget required a more conservative budget process. Unfortunately, even that approach turned out to be too aggressive. Sales tax was budgeted to increase at a slower 4% rate in 2009, but actually came in at 1% below 2008 levels. Spending requirements continued to grow during 2009 which caused cash balances at year end to be negative in the General Fund. The 2010 budget was based on continued reduced revenue expectations and required budget cutting during the January and February 2010 time frame.

Conway has continued to grow during this period of national recession which has placed considerable strain on the City budget. Available revenue has been stretched during 2010 by limiting capital expenditures, employee raises and all non-essential spending. Issues that are still City priorities include:

- vehicle and equipment replacement and repair
- staffing
- economic development
- law enforcement and fire service levels, and
- sustainability, management of growth demands

The City's general fund budget is balanced with total resources equal to total expense appropriation within each fund, as well as aggregate. Total estimated general fund revenue and expense amount to (\$26,624,437) for the City of Conway. The 2010 general fund budget is allocated to personal services (\$20,085,048), operating expenses (\$6,167,927) and capital expenditures (\$371,462). The budget was reduced in February 2010 to reflect the reduced revenue expectations.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Conway Finance Department, 1201 Oak Street, Conway, AR 72032.

## **BASIC FINANCIAL STATEMENTS**

# City of Conway, Arkansas

## Statement of Net Assets, December 31, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 15,513,478	\$ 1,091,666	\$ 16,605,144	\$ 8,409,976
Time deposits	1,820,448	-	1,820,448	20,598,088
Accounts receivable, net	5,889,733	3,816	5,893,549	6,278,096
Interest receivable	9,272	-	9,272	33,827
Taxes receivable	3,780,144	-	3,780,144	-
Due from component unit	1,103,646	691,302	1,794,948	-
Internal balances	(1,353,638)	1,353,638	-	-
Inventory	-	-	-	5,569,540
Other current assets	47,926	2,122	50,048	462,305
Restricted assets				
Cash and cash equivalents	2,316,591	-	2,316,591	-
Total current assets	29,127,600	3,142,544	32,270,144	41,351,832
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	2,488,373	2,488,373	1,735,766
Investments	-	-	-	13,017,542
Total restricted assets	-	2,488,373	2,488,373	14,753,308
Capital assets				
Capital assets - nondepreciable	38,562,904	1,508,603	40,071,507	25,347,427
Capital assets - depreciable, net	95,526,295	7,122,322	102,648,617	189,716,845
Total capital assets, net	134,089,199	8,630,925	142,720,124	215,064,272
Other assets	-	-	-	816,731
Total noncurrent assets	134,089,199	11,119,298	145,208,497	230,634,311
Total assets				
	\$ 163,216,799	\$ 14,261,842	\$ 177,478,641	\$ 271,986,143

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES AND NET ASSETS				
Current liabilities payable from unrestricted assets				
Accounts payable	\$ 2,812,792	\$ 161,833	\$ 2,974,625	\$ 5,223,844
Accrued expenses and other	1,076,863	116,079	1,192,942	987,496
Customer deposits	-	-	-	1,342,921
Due to primary government	-	-	-	1,794,948
Notes and leases payable - current portion	3,722,548	-	3,722,548	-
Compensated absences due within one year	110,186	6,094	116,280	-
Landfill closure and postclosure care	-	489,875	489,875	-
Unearned revenue	486,279	-	486,279	272,965
Total current liabilities payable from unrestricted assets	8,208,668	773,881	8,982,549	9,622,174
Current liabilities payable from restricted assets				
Accrued interest payable	68,676	-	68,676	273,100
Developer deposits	-	-	-	466,751
Bonds payable - current portion	2,700,000	-	2,700,000	2,763,684
Total current liabilities payable from restricted assets	2,768,676	-	2,768,676	3,503,535
Total current liabilities	10,977,344	773,881	11,751,225	13,125,709
Noncurrent liabilities				
Net pension obligation	3,258,710	638,620	3,897,330	-
Notes payable	422,488	-	422,488	-
Leases payable	801,578	-	801,578	-
Bonds payable, net	27,330,000	-	27,330,000	35,598,252
Compensated absences	1,361,669	135,136	1,496,805	509,520
Estimated liability for landfill closure and postclosure care costs	-	3,797,179	3,797,179	-
Total noncurrent liabilities	33,174,445	4,570,935	37,745,380	36,107,772
Total liabilities	44,151,789	5,344,816	49,496,605	49,233,481
Net assets				
Invested in capital assets, net of related debt	106,443,884	8,630,925	115,074,809	178,972,347
Restricted for:				
Debt service	2,604,053	2,488,373	5,092,426	2,256,530
Capital projects	9,415,783	-	9,415,783	-
Unrestricted	601,290	(2,202,272)	(1,600,982)	41,523,785
Total net assets	119,065,010	8,917,026	127,982,036	222,752,662
Total liabilities and net assets	\$ 163,216,799	\$ 14,261,842	\$ 177,478,641	\$ 271,986,143

**City of Conway, Arkansas****Statement of Activities, Year Ended December 31, 2009**

		Program Revenues		
		Charges	Operating	Capital
	Expenses	for Services	Grants and	Grants and
			Contributions	Contributions
<b>Functions/Programs</b>				
<b>Primary Government</b>				
<b>Governmental activities</b>				
General administration	\$ 4,399,703	\$ 697,995	\$ 975,773	\$ -
Airport	52,682	81,363	1,259,507	-
Cemeteries	19,426	-	-	-
Community Development Block Grant	157,535	-	170,116	-
Fire	7,915,973	4,446	727,761	-
Highways and streets	7,683,399	1,179,254	550,404	-
Parks & recreation	2,334,998	718,090	854,988	-
Law enforcement	12,328,707	1,264,950	633,167	-
Sanitation	14,981	12,000	1,256	-
Interest expense on long-term debt	1,438,830	-	-	-
Total governmental activities	36,346,234	3,958,098	5,172,972	-
<b>Business-type activities</b>				
Sanitation	6,390,013	7,251,110	-	-
Total primary government	\$ 42,736,247	\$ 11,209,208	\$ 5,172,972	\$ -
<b>Component Units</b>				
	\$ 84,778,425	\$ 84,870,201	\$ -	\$ 4,329,392
<b>General revenues</b>				
General property taxes				
Franchise taxes				
Sales taxes				
State gasoline tax turned back to City				
Investment income and unrealized gains, net				
Other				
<b>Transfers</b>				
<b>Total general revenues and transfers</b>				
<b>Change in Net Assets</b>				
<b>Net Assets, Beginning of Year, as Restated</b>				
<b>Net Assets, End of Year</b>				

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total		
\$ (2,725,935)	\$ -	\$ (2,725,935)		
1,288,188	-	1,288,188		
(19,426)	-	(19,426)		
12,581	-	12,581		
(7,183,766)	-	(7,183,766)		
(5,953,741)	-	(5,953,741)		
(761,920)	-	(761,920)		
(10,430,590)	-	(10,430,590)		
(1,725)	-	(1,725)		
(1,438,830)	-	(1,438,830)		
(27,215,164)	-	(27,215,164)		
-	861,097	861,097		
(27,215,164)	861,097	(26,354,067)		
-	-	-	4,421,168	
3,011,430	-	3,011,430	-	
3,090,542	-	3,090,542	-	
22,481,392	-	22,481,392	654,043	
3,444,695	-	3,444,695	-	
558,765	4,024	562,789	726,310	
-	119,605	119,605	-	
378,908	(378,908)	-	-	
32,965,732	(255,279)	32,710,453	1,380,353	
5,750,568	605,818	6,356,386	5,801,521	
113,314,442	8,311,208	121,625,650	216,951,141	
\$ 119,065,010	\$ 8,917,026	\$ 127,982,036	\$ 222,752,662	



# City of Conway, Arkansas

## Balance Sheet - Governmental Funds, December 31, 2009

	General Fund	Street Fund	Debt Service Fund	Other Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
<b>Assets</b>							
Cash and cash equivalents	\$ 11,640	\$ 1,613,694	\$ 2,316,591	\$ 3,244,590	\$ 10,403,084	\$ 240,470	\$ 17,830,069
Time deposits	-	820,448	-	1,000,000	-	-	1,820,448
Accounts receivable	4,153,771	1,668,278	-	2,401	-	65,283	5,889,733
Taxes receivable	2,616,009	40,377	531,277	-	592,481	-	3,780,144
Due from component unit	143,041	-	-	360,605	600,000	-	1,103,646
Due from other funds	466,311	180,645	-	3,223	3,000	10,912	664,091
Interest receivable	-	8,140	-	1,132	-	-	9,272
Prepaid expenditures and other	35,632	-	-	-	-	-	35,632
<b>Total assets</b>	<b>\$ 7,426,404</b>	<b>\$ 4,331,582</b>	<b>\$ 2,847,868</b>	<b>\$ 4,611,951</b>	<b>\$ 11,598,565</b>	<b>\$ 316,665</b>	<b>\$ 31,133,035</b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 440,929	\$ 180,309	\$ -	\$ -	\$ 2,182,782	\$ 1,954	\$ 2,805,974
Accrued interest	-	-	243,815	-	-	-	243,815
Accrued wages payable and related liabilities	756,268	71,069	-	-	-	3,483	830,820
Due to other funds	1,523,694	395,283	-	3,020	-	83,438	2,005,435
Deferred revenue	1,682,858	1,328,572	-	486,279	-	-	3,497,709
<b>Total liabilities</b>	<b>4,403,749</b>	<b>1,975,233</b>	<b>243,815</b>	<b>489,299</b>	<b>2,182,782</b>	<b>88,875</b>	<b>9,383,753</b>
<b>Fund Balances</b>							
<b>Reserved</b>							
Debt service	-	-	2,604,053	-	-	-	2,604,053
Capital projects	-	-	-	-	9,415,783	-	9,415,783
<b>Total reserved</b>	<b>-</b>	<b>-</b>	<b>2,604,053</b>	<b>-</b>	<b>9,415,783</b>	<b>-</b>	<b>12,019,836</b>
<b>Unreserved</b>							
General Fund	3,022,655	-	-	-	-	-	3,022,655
Special revenues	-	2,356,349	-	4,122,652	-	227,790	6,706,791
<b>Total unreserved</b>	<b>3,022,655</b>	<b>2,356,349</b>	<b>-</b>	<b>4,122,652</b>	<b>-</b>	<b>227,790</b>	<b>9,729,446</b>
<b>Total fund balances</b>	<b>3,022,655</b>	<b>2,356,349</b>	<b>2,604,053</b>	<b>4,122,652</b>	<b>9,415,783</b>	<b>227,790</b>	<b>21,749,282</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,426,404</b>	<b>\$ 4,331,582</b>	<b>\$ 2,847,868</b>	<b>\$ 4,611,951</b>	<b>\$ 11,598,565</b>	<b>\$ 316,665</b>	

### Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial and are not reported in the funds	134,089,199
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	(39,775,855)
An internal service fund is used by management to charge the costs of fleet maintenance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	(9,046)
Consists primarily of amounts reported as deferred revenue not recognized at the fund level on the modified accrual basis reported as revenues on the full accrual basis in the government-wide statements	3,011,430
<b>Net assets of governmental activities</b>	<b>\$ 119,065,010</b>

**City of Conway, Arkansas**

**Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds, Year Ended December 31, 2009**

	General	Street Fund	Debt Service Fund	Other Special Revenue Fund	Capital Projects Fund	Non-Major Governmental Funds	Total
<b>Revenues</b>							
General property taxes	\$ 1,481,035	\$ 1,089,731	\$ -	\$ 33,113	\$ -	\$ 19,446	\$ 2,623,325
Sales taxes	14,225,848	2,712,832	2,889,081	2,257,809	2,889,084	-	24,974,654
Licenses and permits	1,119,392	720	-	-	-	-	1,120,112
Intergovernmental	3,159,007	383,255	-	-	638,969	470,310	4,651,541
Charges for services	-	-	-	1,524,537	-	-	1,524,537
Fines & fees	707,290	67,300	-	70,088	-	-	844,678
Franchise fees	3,082,796	7,746	-	-	-	-	3,090,542
Investment income and unrealized gains, net	61,200	31,669	14,615	24,379	426,801	101	558,765
Miscellaneous	1,699,449	137,597	-	-	-	104,589	1,941,635
<b>Total revenues</b>	<b>25,536,017</b>	<b>4,430,850</b>	<b>2,903,696</b>	<b>3,909,926</b>	<b>3,954,854</b>	<b>594,446</b>	<b>41,329,789</b>
<b>Expenditures</b>							
Current general government							
General administration	3,813,767	-	-	-	-	-	3,813,767
Airport	28,017	-	-	-	-	-	28,017
Cemetaries	-	-	-	-	-	19,426	19,426
Community Development Grant	-	-	-	-	-	156,934	156,934
Fire	7,262,418	-	-	-	-	-	7,262,418
Highways and streets	-	3,313,113	-	-	103,908	-	3,417,021
Parks & recreation	2,006,616	-	-	18,658	-	-	2,025,274
Law enforcement	11,301,197	-	-	-	-	4,150	11,305,347
Sanitation	-	-	-	-	-	14,981	14,981
Debt Service							
Principal	-	-	3,997,027	190,731	-	-	4,187,758
Interest	-	-	1,391,293	31,583	-	-	1,422,876
Cost of issuance	-	-	-	-	-	-	-
Fees	-	-	15,954	-	-	-	15,954
Capital outlay							
General administration	358,705	-	-	-	2,239,762	4,717	2,603,184
Airport	1,181,809	-	-	-	-	-	1,181,809
Fire	331,862	-	-	-	1,346,944	-	1,678,806
Highways and streets	-	1,015,330	-	-	4,715,685	-	5,731,015
Parks and recreation	287,760	-	-	39,857	7,381,148	-	7,708,765
Law enforcement	229,491	-	-	10,810	2,463,665	51,929	2,755,895
Sanitation	-	-	-	-	-	41,129	41,129
<b>Total expenditures</b>	<b>26,801,642</b>	<b>4,328,443</b>	<b>5,404,274</b>	<b>291,639</b>	<b>18,251,112</b>	<b>293,266</b>	<b>55,370,376</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,265,625)</b>	<b>102,407</b>	<b>(2,500,578)</b>	<b>3,618,287</b>	<b>(14,296,258)</b>	<b>301,180</b>	<b>(14,040,587)</b>
<b>Other Financing Sources (Uses)</b>							
Issuance of debt	-	-	-	-	3,500,000	-	3,500,000
Transfers in	628,123	2,298,084	2,547,242	-	1,903,676	-	7,377,125
Transfers out	(1,605,417)	(594,788)	(283,851)	(3,492,457)	(781,026)	(240,678)	(6,998,217)
<b>Total other financing sources (uses)</b>	<b>(977,294)</b>	<b>1,703,296</b>	<b>2,263,391</b>	<b>(3,492,457)</b>	<b>4,622,650</b>	<b>(240,678)</b>	<b>3,878,908</b>
<b>Net Change in Fund Balance</b>	<b>(2,242,919)</b>	<b>1,805,703</b>	<b>(237,187)</b>	<b>125,830</b>	<b>(9,673,608)</b>	<b>60,502</b>	<b>(10,161,679)</b>
<b>Fund Balance, Beginning of Year, as Restated</b>	<b>5,265,574</b>	<b>550,646</b>	<b>2,841,240</b>	<b>3,996,822</b>	<b>19,089,391</b>	<b>167,288</b>	<b>31,910,961</b>
<b>Fund Balance, End of Year</b>	<b>\$ 3,022,655</b>	<b>\$ 2,356,349</b>	<b>\$ 2,604,053</b>	<b>\$ 4,122,652</b>	<b>\$ 9,415,783</b>	<b>\$ 227,790</b>	<b>\$ 21,749,282</b>

**City of Conway, Arkansas**

**Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities, Year Ended December 31, 2009**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$ (10,161,679)
Governmental funds report capital outlays as expenditures. However, for government-wide statements, the cost or contributed value of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	15,369,489
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	(87,520)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	1,314
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	619,082
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	<u>9,882</u>
Change in net assets of governmental activities	<u>\$ 5,750,568</u>

**City of Conway, Arkansas**

**Statement of Fund Net Assets -  
Proprietary Funds, December 31, 2009**

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	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<hr/>		
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,091,666	\$ -
Due from component unit	695,118	-
Due from other funds	1,364,646	-
Prepaid expenses	2,122	12,294
	<hr/>	<hr/>
<b>Total current assets</b>	<b>3,153,552</b>	<b>12,294</b>
	<hr/>	<hr/>
<b>Capital assets:</b>		
Land and buildings	4,216,122	-
Constuction in progress	494,271	-
Equipment	7,734,223	81,592
Infrastructure	691,618	-
Less accumulated depreciation	(4,505,309)	(55,476)
	<hr/>	<hr/>
<b>Total capital assets, net</b>	<b>8,630,925</b>	<b>26,116</b>
	<hr/>	<hr/>
<b>Restricted assets - cash and cash equivalents</b>	<b>2,488,373</b>	<b>-</b>
	<hr/>	<hr/>
 <b>Total assets</b>	 <b>\$ 14,272,850</b>	 <b>\$ 38,410</b>
	<hr/>	<hr/>

See Notes to Financial Statements.

	Business-type Activities - Enterprise Fund	Governmental Activities - Internal Service Fund
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 161,833	\$ 6,818
Accrued wages payable and related liabilities	116,079	2,228
Due to other funds	11,008	12,294
Compensated absences due within one year	6,094	-
Landfill closure and postclosure care	489,875	-
<b>Total current liabilities</b>	<b>784,889</b>	<b>21,340</b>
<b>Long-term liabilities</b>		
Compensated absences	135,136	-
Estimated liability for landfill closure and postclosure care costs	3,797,179	-
Net pension obligation	638,620	-
<b>Total long-term liabilities</b>	<b>4,570,935</b>	<b>-</b>
<b>Total liabilities</b>	<b>5,355,824</b>	<b>21,340</b>
<b>Net assets</b>		
Invested in capital assets	8,630,925	26,116
Restricted for debt service	2,488,373	-
Unrestricted	(2,202,272)	(9,046)
<b>Total net assets</b>	<b>8,917,026</b>	<b>17,070</b>
<b>Total liabilities and net assets</b>	<b>\$ 14,272,850</b>	<b>\$ 38,410</b>

**City of Conway, Arkansas**

**Statement of Revenues, Expenses, and Changes in Fund Net Assets -  
Proprietary Funds, Year Ended December 31, 2009**

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	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>Operating revenues</b>		
Charges for services	\$ 7,251,110	\$ 182,860
Miscellaneous	362,484	-
Total operating revenues	<u>7,613,594</u>	<u>182,860</u>
<b>Operating expenses</b>		
General administration	-	134,154
Sanitation operations	5,556,644	-
Depreciation	833,369	12,708
Total operating expenses	<u>6,390,013</u>	<u>146,862</u>
<b>Operating income (loss)</b>	<u>1,223,581</u>	<u>35,998</u>
<b>Nonoperating revenues and expenses:</b>		
Investment income	4,024	-
Loss on sale of assets	(242,879)	-
Total nonoperating revenue (expense) before transfers	<u>(238,855)</u>	<u>-</u>
Income before other revenues, expenses, gains, losses, and transfers	984,726	35,998
Transfers out, net	<u>(378,908)</u>	<u>-</u>
<b>Change in Total Net Assets</b>	605,818	35,998
<b>Total Net Assets, Beginning of Year</b>	<u>8,311,208</u>	<u>(18,928)</u>
<b>Total Net Assets, End of Year</b>	<u>\$ 8,917,026</u>	<u>\$ 17,070</u>

**City of Conway, Arkansas****Statement of Cash Flows - Proprietary Funds,  
Year Ended December 31, 2009**

	<b>Business-type Activities - Enterprise Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers and users	\$ 7,199,372	\$ 182,860
Receipts from other sources	362,484	-
Payment to suppliers	(2,033,466)	102,150
Payment to employees	(3,304,904)	(90,044)
Net cash provided by operating activities	2,223,486	194,966
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Advances from other funds	(2,827,097)	(190,678)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	(1,836,433)	(4,288)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	4,024	-
Cash and cash equivalents, January 1	6,016,059	-
Cash and cash equivalents, December 31	\$ 3,580,039	\$ -
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,223,581	\$ 35,998
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	833,369	12,708
Change in operating assets and liabilities		
Receivables	(51,738)	-
Prepaid expenses	-	143,224
Accounts payable	(17,502)	808
Accrued wages payable	53,138	2,228
Compensated absences payable	20,098	-
Landfill closure and postclosure cost	220,236	-
Net pension obligation	(57,696)	-
Total adjustments	999,905	158,968
Net cash provided by operating activities	\$ 2,223,486	\$ 194,966

**City of Conway, Arkansas**

**Statement of Fiduciary Net Assets -  
Fiduciary Funds, December 31, 2009**

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	<b>Total Pension Funds</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,213,060	\$ 257,937
Receivables:		
Taxes contributed from general fund	390,187	-
Due from other funds	64,188	-
Interest and dividends	11,568	-
Total receivables	465,943	-
Investments, at fair value:		
U. S. Government obligations	128,823	-
Corporate bonds	455,577	-
Stocks	4,198,344	-
Certificates of deposit	106,327	-
Municipal bonds	99,753	-
Total investments	4,988,824	-
<b>Total assets</b>	<b>6,667,827</b>	<b>257,937</b>
<b>LIABILITIES</b>		
Due to other agencies	-	170,143
Due to other funds	6,237	1,759
Bonds, fines, and costs pending	-	86,035
Total liabilities	6,237	257,937
<b>NET ASSETS</b>		
Net assets held in trust for pension benefits	\$ 6,661,590	\$ -



**City of Conway, Arkansas**

**Statement of Changes in Fiduciary Net Assets -  
Pension Funds, Year Ended December 31, 2009**

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**ADDITIONS**

Contributions:

Employer	\$ 600,225
Taxes contributed from general fund	934,440
Other sources - state funds	137,345
Plan member	516,640
Total contributions	<u>2,188,650</u>

Investment Income:

Net decrease in fair value of investments	1,790,884
Interest	130,321
Dividends	339,974
Less investment expense	(109,490)
Net investment income	<u>2,151,689</u>
Total additions, net of decrease in fair value of investments	<u>4,340,339</u>

**DEDUCTIONS**

Benefits	2,337,881
Refunds of contributions	148,783
Administrative expense	27,647
Transfer of plan assets	8,563,792
Total deductions	<u>11,078,103</u>

**Change in Net Assets** (6,737,764)

**Net Assets Held in Trust for Pension Benefits, Beginning of Year** 13,399,354

**Net Assets Held in Trust for Pension Benefits, End of Year** \$ 6,661,590

**City of Conway, Arkansas**

**Combining Statement of Net Assets - Component Units, December 31, 2009**

	Component Units		
	Conway Corporation	A & P Commission	Total
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 7,137,273	\$ 1,272,703	\$ 8,409,976
Time deposits	20,598,088	-	20,598,088
Accounts receivable, net	6,047,551	230,545	6,278,096
Interest receivable	33,827	-	33,827
Inventory	5,569,540	-	5,569,540
Other current assets	459,138	3,167	462,305
<b>Total current assets</b>	<b>39,845,417</b>	<b>1,506,415</b>	<b>41,351,832</b>
<b>Noncurrent assets</b>			
Restricted assets			
Cash and cash equivalents	1,735,766	-	1,735,766
Investments	13,017,542	-	13,017,542
<b>Total restricted assets</b>	<b>14,753,308</b>	<b>-</b>	<b>14,753,308</b>
<b>Capital assets</b>			
Capital assets - nondepreciable	25,347,427	-	25,347,427
Capital assets - depreciable, net	189,716,845	-	189,716,845
<b>Total capital assets, net</b>	<b>215,064,272</b>	<b>-</b>	<b>215,064,272</b>
<b>Other assets</b>	<b>816,731</b>	<b>-</b>	<b>816,731</b>
<b>Total noncurrent assets</b>	<b>230,634,311</b>	<b>-</b>	<b>230,634,311</b>
<b>Total assets</b>	<b>\$ 270,479,728</b>	<b>\$ 1,506,415</b>	<b>\$ 271,986,143</b>

See notes to financial statements.

	Component Units		
	Conway Corporation	A & P Commission	Total
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities payable from unrestricted assets</b>			
Accounts payable	\$ 5,074,334	\$ 149,510	\$ 5,223,844
Accrued expenses and other	987,496	-	987,496
Customer deposits	1,342,921	-	1,342,921
Due to primary government	834,343	960,605	1,794,948
Unearned revenue	272,965	-	272,965
<b>Total current liabilities payable from unrestricted assets</b>	<b>8,512,059</b>	<b>1,110,115</b>	<b>9,622,174</b>
<b>Current liabilities payable from restricted assets</b>			
Accrued interest payable	273,100	-	273,100
Developer deposits	466,751	-	466,751
Bonds payable - current portion	2,763,684	-	2,763,684
<b>Total current liabilities payable from restricted assets</b>	<b>3,503,535</b>	<b>-</b>	<b>3,503,535</b>
<b>Total current liabilities</b>	<b>12,015,594</b>	<b>1,110,115</b>	<b>13,125,709</b>
<b>Noncurrent liabilities</b>			
Net pension obligation	-	-	-
Notes payable	-	-	-
Bonds payable, net	35,598,252	-	35,598,252
Postemployment Benefits	509,520	-	509,520
<b>Total noncurrent liabilities</b>	<b>36,107,772</b>	<b>-</b>	<b>36,107,772</b>
<b>Total liabilities</b>	<b>48,123,366</b>	<b>1,110,115</b>	<b>49,233,481</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	178,972,347	-	178,972,347
Restricted for:			
Debt service	2,256,530	-	2,256,530
Capital projects	-	-	-
Unrestricted	41,127,485	396,300	41,523,785
<b>Total net assets</b>	<b>222,356,362</b>	<b>396,300</b>	<b>222,752,662</b>
<b>Total liabilities and net assets</b>	<b>\$ 270,479,728</b>	<b>\$ 1,506,415</b>	<b>\$ 271,986,143</b>

## City of Conway, Arkansas

### Combining Statement of Activities - Component Units, Year Ended December 31, 2009

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
<b>Governmental activities</b>				
Other component units	\$ 1,138,325	\$ -	\$ -	\$ -
Total governmental activities	1,138,325	-	-	-
<b>Business-type activities</b>				
Conway Corporation	83,640,100	84,870,201	-	4,329,392
Total business-type activities	83,640,100	84,870,201	-	4,329,392
Total component units	\$ 84,778,425	\$ 84,870,201	\$ -	\$ 4,329,392
<b>General revenues</b>				
Sales taxes				
Investment income and unrealized gains, net				
<b>Total general revenues and transfers</b>				
<b>Change in Net Assets</b>				
<b>Net Assets, Beginning of Year</b>				
<b>Net Assets, End of Year</b>				

See Notes to Financial Statements.

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Net (Expense) Revenue and Changes in Net Assets		
Conway Corporation	Other Component Unit	Total
\$ -	\$ (1,138,325)	\$ (1,138,325)
-	(1,138,325)	(1,138,325)
5,559,493	-	5,559,493
5,559,493	-	5,559,493
5,559,493	(1,138,325)	4,421,168
-	654,043	654,043
717,780	8,530	726,310
717,780	662,573	1,380,353
6,277,273	(475,752)	5,801,521
216,079,089	872,052	216,951,141
\$ 222,356,362	\$ 396,300	\$ 222,752,662

# **CITY OF CONWAY, ARKANSAS**

## **NOTES TO FINANCIAL STATEMENTS, DECEMBER 31, 2009**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Conway, Arkansas (the "City"), which was first incorporated in 1875 and subsequently incorporated as a city of first class on July 3, 1930, is governed by an elected Mayor/City Council form of government. The City is responsible for providing a full range of governmental services, including police and fire protection, recreational facilities and programs, planning, sanitation services, airport facilities, and district court to its approximately 55,000 residents.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for state and local governments as defined by the Governmental Accounting Standards Board ("GASB"). Enterprise funds and similar component units also apply Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. The following is a summary of the significant accounting and reporting policies of the City.

#### **(A) Reporting Entity**

The accompanying government-wide financial statements present the financial statements of the City of Conway and its component units. The component units are legally separate entities for which the City is considered to be financially accountable. Accountability is defined as the City's substantive appointment of the majority of the component unit's government board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City. The component units are further distinguished between Blended Component Units, presented as part of the primary government, and Discretely Presented Component Units, presented separately.

The City's defined benefit plan, being fiduciary in nature, was not evaluated as a potential component unit, but instead is reported as a fiduciary fund.

The City's primary government consists of those funds or organizations that make up the legal entity for which it is financially responsible. Under these criteria, the following are included in the primary government reporting entity:

### **Blended Component Unit**

The Planning Commission of the City of Conway, Arkansas (the “Planning Commission”) was established by ordinance of the City in 1976, and is governed by members nominated by the Planning Commission and confirmed by the City Council. Although it is legally separate from the City, the Planning Commission is reported as if it were part of the primary government because its sole function is performed for the City. There are no financial activities for the Planning Commission.

### **Discretely Presented Component Units**

The City has entered into several agreements with Conway Corporation (the “Corporation”) for the operation of city-owned utilities. As a result, the Corporation operates the electric department, water department, wastewater department, and cable television department. The Corporation provides services to residential and commercial customers in the City of Conway, Arkansas and recognizes revenue for utility services in the period in which the services are provided. The Corporation is exempt from income taxes under Section 115 of the Internal Revenue Code. The City receives financial benefits, free utility services, and contributions to operations as a result of the Corporation leasing the utilities. Appointments to the Corporation’s Board of Directors, issues of additional indebtedness, rate changes, and changes in services are subject to approval of the City Council. The financial statements, which include the financial position and results of operations of the Corporation, are presented as a discretely presented component unit in a separate column to emphasize that it is legally separate from the City. Audited financial statements of the Corporation can be obtained at the offices of Conway Corporation, 1307 Prairie Street, Conway, Arkansas, 72032.

The City of Conway Advertising and Promotion Commission (the “Commission”) was established by ordinance of the City in January 2000. The City Council initially appointed the members of the Commission, and vacancies are filled with City Council approval. They consist of four members who are owners or managers in the tourism industry who reside in the City, two members of the City’s council, and one member from the public at-large. The Commission derives its revenues from a tax on the gross receipts or proceeds received from renting, leasing, or furnishing hotel, motel, or short-term condominium rental and meeting or party-room facilities levied and revocable by the City and through a prepared food tax. All room rental funds received by the Commission pursuant to the tax levied are to be used for advertising and promoting the City and its environs. The majority of the revenue generated by the commission consists of the prepared food tax, which is to be used for parks and recreation improvements at the discretion of the Mayor and City Council. Bonds issued by the City in 2007 are secured by the City’s pledge of this revenue stream. Audited financial statements of the Commission may be obtained by request at City of Conway Advertising and Promotion Commission, P.O. Box 2229, Conway, Arkansas 72033.

The Public Facilities Board of the City of Conway, Arkansas (the “Facilities Board”) was established for the purpose of undertaking public facilities projects. It currently exists to issue and service capital improvement revenue bond and health care refunding revenue bond debt applicable to facilities within the City. The City Council confirms Facilities Board members after election by a majority of the Facilities Board and can alter or change the structure, organization, programs or activities of the Facilities Board including terminating the Board at will. Additionally, the City Council must approve the issuance of any bonds. The Facilities Board does not derive revenue from the bonds it issues and does not issue separate financial statements nor have any financial statement activity.

### **(B) Government-wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements.

#### **Government-wide Statements**

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report information on all of the nonfiduciary activities of the primary government and its component units. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City’s own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that cannot be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues include (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or identifiable activity and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity.

#### **Fund Financial Statements**

The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund—governmental, proprietary, and fiduciary—are presented.



The emphasis of fund financial statements is on major funds, each displayed in a separate column. All other governmental funds are aggregated and reported as non-major funds.

The City reports the following governmental funds:

**The General Fund** is the City's primary operating fund and accounts for all financial resources of the City except those required to be accounted for in another fund.

**The Debt Service Fund** is used to account for the accumulation of resources for, and the payment of, governmental long-term debt principal, interest and related costs. The debt service fund is considered a major fund in the fund financial statements.

**The Capital Projects Fund** is used to account for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by the enterprise fund, and is considered a major fund for reporting purposes in the fund financial statements.

**Special Revenue Funds** are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. There are six Special Revenue Funds which account for the activities related to street and drainage activities, grant programs and funds designated for specific service programs. They are as follows:

- The Street Fund
- The Grant Fund
- The Asset Forfeiture Fund
- The Community Development Block Grant Fund
- The Police Equipment Fund
- The Other Special Revenue Fund

**The Street Fund** accounts for the activities of the City's street and related drainage projects and is considered a major fund for reporting purposes in the fund financial statements.

**The Other Special Revenue Fund** accounts for the City's impact fees and prepared food tax receipts and is considered a major fund for reporting purposes in the fund financial statements.

**The Internal Service Fund** is used to account for the financing of goods or services provided by one department or agency to other City departments on a cost-plus basis. The City's Internal Service Fund consists of the Fleet Maintenance Department's operations.

The City reports one enterprise fund. **The Enterprise Fund** is used to account for the City's Sanitation Department operations and surcharge replacement activity, which is primarily supported by user charges.

The City reports the following fiduciary funds:

**The Pension Fund** is used to account for assets held in trust for the Non-Uniformed Employees' Pension Trust Fund. Plan trustees must act in accordance with the specific purposes and terms of this retirement plan.

**The Agency Fund** accounts for monies collected and held by the courts until they are disbursed to various governmental agencies.

**(C) Measurement Focus and Basis of Accounting**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting except for the fiduciary fund's agency fund which has no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expense not meeting this definition are reported as nonoperating items.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include taxes; fines and forfeitures; grants, entitlements and similar items; and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Franchise taxes, other taxes, and fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provided have been met. Amounts received before all eligibility requirements have been met are reported as unearned revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

**Governmental Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in spendable resources. General capital asset acquisitions are reported as expenditures and the proceeds of general long-term debt are reported as other financial sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available

if they are collected within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, federal funds, local funds and investment earnings.

Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

#### **(D) Cash and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

#### **(E) Receivables for Property Taxes**

In the governmental funds, property taxes are measurable when levied even though not available. As a result, the accompanying fund financial statements reflect a receivable and deferred revenue for property taxes which were levied in November 2009. In the government-wide financial statements, property taxes are considered earned at the time levied. A lien attaches to the real property in January and to personal property in June of each year. Property taxes are collectible beginning the first business day of March of the year subsequent to the November in which they were levied. However, such taxes are not considered delinquent until after October 10 of the year in which they are collectible. Over time, substantially all property taxes are collected.

#### **(F) Prepaids Assets and Inventory**

Prepaid assets are payments to vendors that benefit future reporting periods and are reported on the consumption basis in government-wide and fund financial statements. For the Corporation, materials and supplies inventory are stated at average cost and coal inventories are stated at cost determined on a first-in, first-out basis.

#### **(G) Capital Assets**

Capital assets, which include infrastructure, are reported in the government-wide financial statements and the fund financial statements for the proprietary fund. All capital assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Donated or contributed assets are valued at their estimated fair value on the date received. Contributed assets are generally received from individuals or developers who receive approval to connect to the Corporation's distribution system.

The City capitalizes assets based on the following criteria as to cost and estimated useful life.

<u>Asset category</u>	<u>Capitalized if cost exceeds</u>	<u>Depreciable life</u>
Small tools, equipment, furniture and fixtures	\$ 750	3 - 5 years
Vehicles, fire and heavy equipment	2,500	5 - 15 years
Buildings and improvements	10,000	10 - 50 years
Infrastructure	10,000	30 - 40 years

The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

#### **(H) Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or component units. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, government fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of any debt issued is reported as other financing sources.

#### **(I) Compensated Absences**

City employees are granted vacation and sick leave in varying amounts. The City records vested vacation and compensatory time benefits as earned. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave is recorded in the government-wide and proprietary fund financial statements utilizing a method that approximates the termination method; sick leave benefits are recorded only to the extent it is probable that the benefits will be paid upon termination.

A liability for these amounts is reported in governmental funds only as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. General revenues are used to liquidate the liability for compensated absences from the fund in which the employee retired.

**(J) Net Assets/Fund Balances**

Net assets of the City are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the City, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

When both restricted and unrestricted resources are available for use, generally it is the City's policy to use unrestricted resources first. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are used first.

**(K) Reconciliation of government-wide and fund financial statements**

**Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets** – The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported on the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this difference are as follows:

Bonds payable, net	\$30,030,000
Notes payable	4,121,178
Leases payable	825,436
Accrued interest on bonds, notes, and leases	68,676
Compensated absences	1,471,855
Net pension obligation	<u>3,258,710</u>
Net adjustment to reduce fund balances – total governmental funds to arrive at net assets of governmental activities	<u>\$39,775,855</u>

**Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities** – The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.

However, for government-wide statements, the cost or contributed value of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this difference are as follows:

Capital outlay	\$21,700,603
Depreciation expense	(5,139,608)
Loss on disposal of assets	<u>(1,191,505)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at change in net assets of governmental activities	<u>\$15,369,490</u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The difference is primarily related to recognition in the government-wide statement of the current year expense related to the net pension obligation and the landfill closure and postclosure care costs.

#### **(L) Budgetary Controls**

The City prepares annual budgets on the modified accrual basis for the General Fund, the Street Fund, the Other Special Revenue Fund, and the Sanitation Enterprise Fund. All annual appropriations lapse at year-end.

#### **(M) Use of Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from these estimates.

#### **(N) Subsequent Events**

The City has evaluated events that occurred after December 31, 2009, but prior to October 21, 2010, the date the financial statements were issued. The City did not identify any events or transactions during this period of time that require recognition or disclosure in the financial statements for the period ended December 31, 2009.

## **2. CASH AND INVESTMENTS**

Custodial Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s deposit policy for custodial credit risk requires compliance with the provisions of state law. The City requires that deposits in financial institutions be collateralized with federal depository insurance and bonds and other interest-bearing securities of the United States, the State of Arkansas, Arkansas political

subdivisions or agencies, or instrumentalities of these entities at 100%. At December 31, 2009, none of the City's governmental bank balances were exposed to custodial credit risk.

Arkansas statutes authorize the City to invest in certain permissible investments which include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations), repurchase agreements, corporate debt and equity obligations, and state and local government securities. The pension trust fund is authorized to also invest in common stocks, investment grade corporate bonds, and other appropriate securities.

As of December 31, 2009, the City had the following investments and maturities.

***Primary Government (Pension Fund)***

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Investment Maturities (in Years)</u></b>			
		<b><u>Less than 1</u></b>	<b><u>1 - 5</u></b>	<b><u>6 - 10</u></b>	<b><u>More than 10</u></b>
U. S. Treasuries	\$ 128,823	\$ —	\$128,823	\$ —	\$ —
Corporate Bonds	455,577	—	241,010	214,567	—
Municipal Bonds	99,753	—	99,753	—	—
Equities	4,198,344	4,198,344	—	—	—
Certificates of Deposit	106,327	—	106,327	—	—
Total	<u>\$4,988,824</u>	<u>\$4,198,344</u>	<u>\$575,913</u>	<u>\$214,567</u>	<u>\$ —</u>

***Component Unit – The Corporation***

<b><u>Investment Type</u></b>	<b><u>Fair Value</u></b>	<b><u>Less than 1</u></b>	<b><u>1 - 5</u></b>	<b><u>6 - 10</u></b>	<b><u>More than 10</u></b>
U. S. Treasuries	<u>\$13,017,542</u>	<u>\$13,017,542</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

All of the primary government's investments were reported by the Pension Fund.

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The City does not have a policy specifically formulated to address interest rate risk. Investment policies for the Non-Uniformed Pension and Relief Plan stipulate that investments in mortgage-backed investments are to be rated AAA, and investments in corporate bond issues are to be rated A at time of purchase.

Credit Risk is the risk that the issuer or other counterparty will not fulfill its obligations. It is the City's policy, excluding fiduciary funds, to invest almost exclusively in government-issued treasuries and agencies or insured time deposits. The Municipal Bond investment is rated A by Standard & Poor's and is not rated by Moody's. The credit exposure for the City's corporate bonds as rated by Standard and Poor's/Moody's is as follows.

<u>Credit Quality Rating</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
AA/A	\$ 26,702	0.54%
A/A	220,928	4.43%
BBB/A	26,091	0.52%
BBB/Baa	<u>181,855</u>	3.65%
	<u>\$455,576</u>	

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the City's investments in a single issuer. Excluding U.S. Treasury and Agency obligations, the Non-Uniformed Employees' Pension and Relief Plan limits the maximum amount of the pension fund's portfolio may be placed in any single issuer without approval by the applicable board to 5%. At December 31, 2009, the Non-Uniformed Employees' Pension and Relief Plan contained investments (other than those issued or guaranteed by the U.S. government) in organizations that represent 5% or more of plan net assets. Those investments included the Ishares Fund totaling \$770,902.

### 3. RESTRICTED ASSETS

Restricted assets of the primary government consist of bank balances restricted to provide financial assurance of the City's landfill closure and postclosure liability. Certain proceeds of the Corporation's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants for meeting debt service requirements for various bond issues.

The developer deposits are collected from individuals or entities engaged in residential and commercial development activities and are held by the Corporation and paid to subcontractors upon the satisfactory execution of work related to the construction of utility plant in service.



#### 4. ACCOUNTS RECEIVABLE

Accounts receivable for the primary government and the A&P Commission have been deemed to be fully collectible, thus, no allowance for doubtful accounts is recorded. The allowance for doubtful accounts balance of approximately \$195,000 at December 31, 2009, is related to the Corporation.

#### 5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2009 was as follows:

<b>Governmental activities:</b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, not being depreciated:				
Land	\$ 13,397,924	\$ —	\$ —	\$ 13,397,924
Construction in progress	<u>19,637,440</u>	<u>20,577,551</u>	<u>(15,050,011)</u>	<u>25,164,980</u>
Total capital assets, not being depreciated	<u>33,035,364</u>	<u>20,577,551</u>	<u>(15,050,011)</u>	<u>38,562,904</u>
Capital assets, being depreciated:				
Buildings and improvements	14,057,842	9,169,494	—	23,227,336
Equipment	21,463,416	1,119,594	(403,850)	22,179,160
Infrastructure	<u>102,990,623</u>	<u>4,779,876</u>	<u>—</u>	<u>107,770,499</u>
Total capital assets, being depreciated	<u>138,511,881</u>	<u>15,068,964</u>	<u>(403,850)</u>	<u>153,176,995</u>
Less accumulated depreciation for:				
Buildings	3,609,624	460,445	(36,239)	4,033,830
Equipment	13,656,757	1,806,158	(280,205)	15,182,710
Infrastructure	<u>35,561,155</u>	<u>2,873,005</u>	<u>—</u>	<u>38,434,160</u>
Total accumulated depreciation	<u>52,827,536</u>	<u>5,139,608</u>	<u>(316,444)</u>	<u>57,650,700</u>
Total capital assets, being depreciated, net	<u>85,684,345</u>	<u>9,929,356</u>	<u>(87,406)</u>	<u>95,526,295</u>
Governmental activities capital assets, net	<u>\$118,719,709</u>	<u>\$30,506,907</u>	<u>\$(15,137,417)</u>	<u>\$134,089,199</u>

<b>Business-type activities:</b>	<b><u>Beginning Balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending Balance</u></b>
Capital assets, not being depreciated:				
Land	\$ 1,014,332	\$ —	\$ —	\$ 1,014,332
Construction in progress	<u>63,683</u>	<u>430,588</u>	<u>—</u>	<u>494,271</u>
Total capital assets, not being depreciated	<u>1,078,015</u>	<u>430,588</u>	<u>—</u>	<u>1,508,603</u>
Capital assets, being depreciated:				
Buildings and improvements	3,181,172	20,618	—	3,201,790
Equipment	6,897,970	1,455,074	(618,821)	7,734,223
Infrastructure	<u>688,118</u>	<u>3,500</u>	<u>—</u>	<u>691,618</u>
Total capital assets, being depreciated	<u>10,767,260</u>	<u>1,479,192</u>	<u>(618,821)</u>	<u>11,627,631</u>
Less accumulated depreciation for:				
Buildings	1,562,357	79,460	—	1,641,817
Equipment	2,181,798	711,383	(302,595)	2,590,586
Infrastructure	<u>230,380</u>	<u>42,526</u>	<u>—</u>	<u>272,906</u>
Total accumulated depreciation	<u>3,974,535</u>	<u>833,369</u>	<u>(302,595)</u>	<u>4,505,309</u>
Total capital assets, being depreciated, net	<u>6,792,725</u>	<u>645,823</u>	<u>(316,226)</u>	<u>7,122,322</u>
Business activities capital assets, net	<u>\$ 7,870,740</u>	<u>\$ 1,076,411</u>	<u>\$(316,226)</u>	<u>\$ 8,630,925</u>

Depreciation expense was charged to functions/programs of the City as follows:

Depreciation by function:	
Governmental activities –	
General administration	\$ 103,365
Airport	24,665
Fire	682,459
Highways and streets	3,063,754
Parks & recreation	232,033
Law enforcement	<u>1,033,332</u>
Total depreciation expenses – governmental activities	<u>\$5,139,608</u>
Business-type activities –	
Sanitation	<u>\$ 833,369</u>

**Discretely presented component unit – The Corporation:**

Activity for the Corporation for the year ended December 31, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Land & land rights	\$ 16,949,220	\$ –	\$ –	\$ 16,949,220
Building & improvements	10,965,139	4,230,783	700	15,195,222
Supply, treatment and distribution facilities	166,235,959	8,141,222	87,595	174,289,586
Equipment	96,559,713	6,664,806	440,924	102,783,595
Undivided interest in coal plants	43,474,131	968,981	–	44,443,112
Construction in progress	<u>9,729,025</u>	<u>8,874,293</u>	<u>10,205,111</u>	<u>8,398,207</u>
	343,913,187	28,880,085	10,734,330	362,058,942
Accumulated depreciation	<u>134,963,081</u>	<u>12,527,672</u>	<u>496,083</u>	<u>146,994,670</u>
Net utility plant in service	<u>\$208,950,106</u>	<u>\$16,352,413</u>	<u>\$10,238,247</u>	<u>\$215,064,272</u>

**6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of December 31, 2009, which are eliminated in the accompanying government-wide financial statements, except as it relates to fiduciary activity, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Street Fund	\$ 395,283
	Enterprise Fund	11,008
	Other Governmental Funds	60,000
	Other Special Revenue Fund	<u>20</u>
		<u>\$ 466,311</u>
Street Funds	General Fund	<u>\$ 180,645</u>
Other Special Revenue Fund	General Fund	<u>\$ 3,223</u>
Other Governmental Funds	General Fund	<u>\$ 10,912</u>
Enterprise Fund	General Fund	\$1,328,914
	Internal Service Fund	12,294
	Other Governmental Funds	<u>23,438</u>
		<u>\$1,364,646</u>
Capital Projects Fund	Other Special Revenue Fund	<u>\$ 3,000</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund with collection authorization to the sanitation enterprise fund as funding of postclosure costs become due; (2) move revenues from the special revenue fund with collection authorization to the street fund as funding for projects supported by impact fees become due; and (3) move unrestricted general fund revenues to finance various programs that the City must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The government-wide statement of activities eliminates transfers reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement. Interfund transfers as of December 31, 2009, are comprised of the following:

<b>Transfers In</b>						
	<b><u>General Fund</u></b>	<b><u>Street Fund</u></b>	<b><u>Debt Service Fund</u></b>	<b><u>Capital Projects Fund</u></b>	<b><u>Sanitation Enterprise Fund</u></b>	<b><u>Total</u></b>
<b><u>Transfers Out</u></b>						
General Fund	\$ —	\$ —	\$1,410,417	\$ 195,000	\$ —	\$1,605,417
Street Fund	—	—	—	455,501	—	455,501
Debt Service Fund	—	—	—	283,851	—	283,851
Other Special Revenue Fund	20,681	1,535,744	1,136,825	589,359	209,848	3,492,457
Capital Projects Fund	—	623,053	—	—	18,686	641,739
Nonmajor Governmental Funds	—	—	—	240,678	—	240,678
Sanitation Enterprise Fund	<u>607,442</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>607,442</u>
Total Transfers	<u>\$628,123</u>	<u>\$2,158,797</u>	<u>\$2,547,242</u>	<u>\$1,764,389</u>	<u>\$228,534</u>	<u>\$7,327,085</u>

Due to/from primary government and component unit

<b><u>Receivable Entity</u></b>	<b><u>Payable Entity</u></b>	<b><u>Amount</u></b>
City – General Fund	The Corporation	\$143,041
City – Proprietary Fund	The Corporation	<u>691,302</u>
		<u>\$834,343</u>
City – Other Special Revenue Fund	A&P Commission	<u>\$960,605</u>

## 7. PENSION PLANS

The City has contributed to three single-employer defined benefit pension plans: Firemen's Pension and Relief Plan, Policemen's Pension and Relief Plan, and Non-Uniformed Employees' Pension and Relief Plan (the "Plans"), and one agent multiple employer retirement system: Local Police and Fire Retirement System ("LOPFI"). As of December 31, 2009, administration of the Firemen's Pension and Relief Plan and the Policemen's Pension and Relief Plan were transferred to LOPFI. Assets and liabilities remaining in these Plans as of December 31, 2009, were transferred to and assumed by LOPFI as of December 31, 2009.

The Non-Uniformed Employees' Pension and Relief Plan, administered by the City, provides retirement and disability benefits to its members. It also provides survivor benefits to its members' survivors. In addition to providing retirement, disability, and death benefits, LOPFI, which is administered by the Arkansas Local Police and Fire Retirement System, provides annual cost-of-living adjustments.

Plan membership for the Non-Uniformed Employees' Pension and Relief Plan is detailed below. LOPFI covers all municipal police officers and fire fighters and their beneficiaries.

	<b><u>Non-Uniformed Employees' Pension &amp; Relief Plan</u></b>
Retirees and beneficiaries currently receiving benefits	65
Terminated members entitled to, but not yet receiving benefits	5
Active members	248

**Funding Policy and Annual Pension Cost** – Benefit and contribution provisions of the Non-Uniformed Employees' Pension and Relief Plan and LOPFI are established by State law and can be amended only by the Arkansas General Assembly. The Non-Uniformed Employees' Pension and Relief Plan does not provide for post-retirement benefit increases. The contribution requirements of the City for LOPFI are established and may be amended by the LOPFI Board of Trustees.

Plan member and City contributions to each Plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each Plan. In addition to the required employer contribution, the City contributed voter mandated property tax on real estate and personal property to the Firemen's Pension and Relief Plan and the Policemen's Pension and Relief Plan before the administration of these plans was transferred to LOPFI. The State of Arkansas provided an insurance premium turnback collected by the State Insurance Commissioner which totaled approximately \$84,000 and \$53,000 directly to the Firemen's Pension and Relief Plan and the Policemen's Pension and Relief Plan, respectively, during the year ended December 31, 2009, and which have been recognized as revenues and expenditures/expenses. Furthermore, the Policemen's Pension and Relief Plan was funded with all forfeitures and fines imposed upon any member of the police department by way of discipline, all money given or donated to such fund, all money deducted from the salary of any member of the police department on account of absence or loss of time, all rewards paid for any purpose, and 10% of all fines and forfeitures collected by the police department of the City. Administrative costs of the Plans were financed through fund assets approved by the Board of Directors. The City's annual pension cost from the most recent actuarial valuation and related information for each plan, including the Firemen's Pension and Relief Fund and the Policemen's Pension and Relief fund, the administration for which was transferred to LOPFI as of December 31, 2009, is as follows:

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>	<b><u>LOPFI Paid Service Fire</u></b>	<b><u>LOPFI Paid Service Police</u></b>
Actuarial valuation date	12/31/2008	12/31/2008	12/31/2008	12/31/2009	12/31/2009
Contribution rates:					
City	6%	6%	6%	17.42%	21.62%
Plan members	6%	6%	6%	**	**
Annual pension cost	\$445,571	\$ 78,237	\$1,005,830	\$ 752,921	\$1,130,046
Contributions made:					
City	\$391,214	\$441,565	\$ 800,138	\$752,921	\$1,130,046
Other sources – state funds	\$123,000	\$139,177	\$ –	\$ –	\$ –
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level % closed	Level % closed	Level % open	Level % open	Level % open
Remaining amortization period	15 years	15 years	30 years	27 years	27 years

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>	<b><u>LOPFI Paid Service Fire</u></b>	<b><u>LOPFI Paid Service Police</u></b>
(continued)					
Asset valuation method	Smooth market	Smooth market	Smooth market	Smooth market	Smooth market
Actuarial assumptions:					
Investment rate of return	7%	7%	7%	8%	8%
Projected salary increases (a)	n/a	n/a	3.5%	0-6%	0-6%
(a) includes inflation at	0%	0%	3.5%	4%	4%
Cost-of-living adjustments	None	None	None	3%	3%

\*\* The employee contribution rates to LOPFI depend on the type of service being rendered and whether or not the service is also covered by Social Security. The different employee contribution rates required by state law are:

- A. Paid service not covered by Social Security: 8.5% of gross pay
- B. Paid service also covered by Social Security: 2.5% of gross pay
- C. Volunteer fire service: no employee contribution

The net pension obligation as of December 31, 2009, for the City Plans, which is reflected in the accompanying government-wide financial statements, and the annual pension cost for the year ended December 31, 2008, the date of the most recent actuarial valuation, are as follows:

	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>
Actuarial required contribution	\$ 634,057	\$ 250,406	\$ 972,432
Interest on net pension obligation	88,550	80,884	128,564
Adjustment to annual required contribution	<u>(277,036)</u>	<u>(253,053)</u>	<u>(95,166)</u>
Annual pension cost	445,571	78,237	1,005,830
Contributions made	<u>514,214</u>	<u>580,742</u>	<u>794,465</u>
Increase (decrease) in net pension obligation	(68,643)	(502,505)	211,365
Net pension obligation, beginning of year	<u>1,265,000</u>	<u>1,155,490</u>	<u>1,836,623</u>
Net pension obligation, end of year	<u>\$1,196,357</u>	<u>\$ 652,985</u>	<u>\$2,047,988</u>

The net pension obligation as of December 31, 2009 and the preceding two years is as follows:

<b><u>Year Ended December 31:</u></b>	<b><u>Firemen's Pension &amp; Relief Plan</u></b>	<b><u>Policemen's Pension &amp; Relief Plan</u></b>	<b><u>Non- Uniformed Employees' Pension &amp; Relief Plan</u></b>
2009	\$1,196,357	\$ 652,985	\$2,047,988
2008	1,196,357	652,985	2,047,988
2007	1,265,000	1,155,490	1,836,623

The City is not obligated to pay the statutorily required benefits if the Plan's assets are not sufficient. If the funds in the Plans should be insufficient to make full payment of the amount of pensions to all persons entitled, then the funds shall be prorated among those entitled in accordance with the respective benefits being received by them.

The City is also required by state statute to provide retirement benefits to a small number of certain elected officials. The payment of such benefits is payable from the General Fund of the City. Due to the size of the plan providing these benefits, the City has determined that the cost to obtain an actuarial valuation for such benefits was not warranted. Therefore, the annual pension cost and net pension obligation, as well as other actuarial information required to be disclosed in accordance with GASB, is not available.

### **Financial Statements**

The Plans do not issue stand-alone financial reports. LOPFI issues a publicly available financial report that includes financial statements and required supplementary information for LOPFI. That report may be obtained by contacting:

Arkansas Local Police and Fire Retirement System  
P.O. Drawer 34164  
Little Rock, Arkansas 72203  
(501) 682-1745

:



Financial statements for the Plans are presented herein. The fiduciary net assets – pension funds as of December 31, 2009, are as follows:

	<b>Non- Uniformed Employees' Pension</b>
<b>ASSETS:</b>	
Cash and cash equivalents	<u>\$1,213,060</u>
Receivables:	
Taxes contributed from the general fund	390,187
Due from other funds	64,188
Interest and dividends	<u>11,568</u>
Total receivables	<u>465,943</u>
Investments, at fair value:	
U. S. Government obligations	128,823
Corporate bonds	455,577
Equities	4,198,344
Certificates of deposit	106,327
Municipal bonds	<u>99,753</u>
Total investments, at fair value	<u>4,988,824</u>
Total assets	6,667,827
<b>LIABILITIES:</b>	
Due to other funds	<u>6,237</u>
<b>NET ASSETS:</b>	
Net assets held in trust for pension benefits	<u>\$6,661,590</u>

The changes in fiduciary net assets – pension funds as of December 31, 2009, are as follows:

	<b><u>Firemen's Pension</u></b>	<b><u>Policemen's Pension</u></b>	<b><u>Non- Uniformed Employees' Pension</u></b>
<b>ADDITIONS:</b>			
Contributions:			
Employer	\$ 27,911	\$ 83,656	\$ 488,658
Taxes contributed from general fund	311,480	311,480	311,480
Other sources – state funds	84,032	53,313	–
Plan member	<u>27,911</u>	<u>–</u>	<u>488,729</u>
Total contributions	<u>451,334</u>	<u>448,449</u>	<u>1,288,867</u>
Investment Income:			
Net increase (decrease) in fair value of investments	(112,744)	894,959	1,008,669
Interest	72,467	6,390	51,464
Dividends	148,127	94,960	96,887
Less investment expense	<u>(44,785)</u>	<u>(25,243)</u>	<u>(39,462)</u>
Net investment income	<u>63,065</u>	<u>971,066</u>	<u>1,117,558</u>
Total additions, net of decrease in fair value of investments	<u>514,399</u>	<u>1,419,515</u>	<u>2,406,425</u>
<b>DEDUCTIONS:</b>			
Benefits	754,597	775,330	807,954
Refunds of contributions	–	–	148,783
Administrative expense	15,631	6,117	5,899
Transfer to LOPFI	<u>3,317,292</u>	<u>5,246,500</u>	<u>–</u>
Total deductions	<u>4,087,520</u>	<u>6,027,947</u>	<u>962,636</u>
<b>Change in Net Assets</b>	<b>(3,573,121)</b>	<b>(4,608,432)</b>	<b>1,443,789</b>
<b>Net Assets Held in Trust for Pension Benefits, Beginning of Year</b>	<u><b>3,573,121</b></u>	<u><b>4,608,432</b></u>	<u><b>5,217,801</b></u>
<b>Net Assets Held in Trust for Pension Benefits, End of Year</b>	<u><u><b>\$ –</b></u></u>	<u><u><b>\$ –</b></u></u>	<u><u><b>\$6,661,590</b></u></u>

### **Three-Year Trend Information**

<u>Year Ended December 31:</u>	<u>Employer Contributions</u>		<u>Other Entities Contributions</u>	
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
<b><i>Firemen's Pension and Relief Plan</i></b>				
2008	\$445,571	97%	\$123,000	100%
2007	730,659	51%	110,824	100%
2006	801,182	43%	84,911	100%
<b><i>Policemen's Pension and Relief Fund</i></b>				
2008	\$ 78,237	564%	\$139,177	100%
2007	517,148	60%	196,060	100%
2006	543,805	68%	91,616	100%
<b><i>Non-Uniformed Employees' Pension and Relief Plan</i></b>				
2008	\$1,005,830	79%	—	—
2006	940,705	65%	—	—
2005	931,440	67%	—	—
	<u>Paid Service Fire</u>		<u>Paid Service Police</u>	
	<u>Annual Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
<b><i>LOPFI</i></b>				
2009	\$752,921	100%	\$1,130,046	100%
2008	728,493	100%	1,016,737	100%
2006	610,518	100%	804,967	100%

The most recent actuarial valuation date of the Non-Uniform Employees' Pension and Relief Plan is December 31, 2008, and for the LOPFI Paid Service Fire Plan and the LOPFI Paid Service Police Plan is December 31, 2009. The following information is as of the most recent actuarial valuation date. The market value was approximately \$6.3 million, \$11.8 million, and \$5 million, respectively. The actuarial accrued liability for benefits was approximately \$18.3 million, \$15.5 million, and \$15 million, respectively, resulting in an unfunded actuarial accrued liability of approximately \$12 million, \$3.7 million, and \$10 million, respectively, and a funded status of 34%, 76%, and 33%, respectively. Annual covered payroll was approximately \$7.7 million, \$4.4 million, and \$5.2 million, respectively, and the ratio of the unfunded actuarial accrued liability to covered payroll was 157%, 83%, and 191%, respectively.

The schedule of funding progress, presented in the required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

The Municipal Judges' and Clerks' Retirement Plan was closed during 2005 and all assets held by the Plan were transferred to the Arkansas District Judges Retirement System. If the accumulated assets become deficient to pay the retirement benefits of district court personnel who were covered by the closed plan, the deficiency shall be met by payments from the City's General Fund.

*Component Unit – The Corporation*

The Corporation's employees participate in the Retirement Plan of the Conway Corporation (the "Plan"), a noncontributory, single-employer defined benefit pension plan administered by the Corporation.

Participants are fully vested upon completion of five years of continuous service. Normal retirement benefits are paid to members who retire after attaining age 65. Retirees are entitled to an annual benefit equal to 1.5% of their average monthly compensation multiplied by the number of years of completed continuous service, with benefits to be paid monthly. Reduced benefits are available to members who retire early with at least ten years of service.

The net pension obligation is a standardized disclosure which is a measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure, which is the actuarial present value of credited projected benefits, is intended to help assess the Plan's funding status on a going-concern basis and progress made in accumulating sufficient assets to pay benefits when due. The Plan does not make separate measurements of assets and net pension obligation for individual employees. There was no net pension obligation at August 1, 2009, the date of the most recent actuarial valuation performed (frozen actuarial liability cost method), for the Plan as a whole. The market value of the Plan's net assets available for benefits on August 1, 2009 was approximately \$11.8 million and the actuarial accrued liability was approximately \$13.7 million resulting in an unfunded actuarial accrued liability of approximately \$1.9 million. The rates used in determining the actuarial present value of the obligation were 7.5% per year for the expected long-term rate of return on investments and 5% per year for the assumed rate of increase in future compensation levels, both of which include an inflation component of 3%.

The Corporation's actuarially determined contribution payments were \$1,292,424 for 2009, which represents 100% of the annual required contribution amount calculated by the actuary. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

The Conway Corporation 457 Supplemental/Retirement Plan (similar to a 401(k) Plan for nongovernmental entities) is a single-employer defined contribution retirement program for employees. Participation is optional with the employer matching up to 25% of the first 3% of gross pay. Total matching contributions for 2009 were \$62,280.

## 8. COMMITMENTS

From time to time, the City enters into agreements which will likely affect future operating results by requiring future expenditures. At December 31, 2009 the City was contractually obligated for the following:

<u>Capital Improvement Project Name</u>	<u>Estimated or Actual Completion Date</u>	<u>Contract Balance</u>
New Lollie Bottoms Airport	December 31, 2014	\$ 181,463
Salem Road overpass /Meadowlake Road	October 31, 2010	17,772
Western Loop Study	August 1, 2010	17,952
Nina Russ Lane	June 30, 2010	152,188
City of Colleges Softball Complex	April 30, 2010	46,493
Safe Routes to School	June 1, 2010	29,664
College Favre Lane	April 1, 2010	30,974
Tucker Creek Bike Trail	September 2, 2010	208,360
Conway Fire Station Remodel	September 30, 2010	187,968
Conway Station Park	December 31, 2010	4,892,708
Conway Fairgrounds	September 1, 2010	874,964
Don Owen Maintenance Shop Bldg	April 1, 2010	131,701
HP - Site Package	May 31, 2010	443,731
Donaghey/Dave Ward	October 31, 2010	875,018
Total contracts		<u>\$8,090,956</u>

## 9. LEASES

The City acts as lessor under a variety of operating lease agreements.

The airport and related facilities are leased to a private business under a lease agreement expiring in 2039. The lease provides for a monthly rental payment plus additional amounts based upon the amount of fuel sold at the airport.

Property leased under this operating lease consists of the following at December 31, 2009:

Land and buildings	\$1,325,536
Infrastructure	131,467
Equipment	24,639
Less: accumulated depreciation	<u>(806,367)</u>
Total	<u>\$ 675,275</u>

Depreciation expense on property leased to others was \$24,665 for the year ended December 31, 2009.

In connection with the above referenced lease, the City also has a management agreement with a private business to maintain the airport facilities. The management agreement, which runs concurrently with the lease, requires payments equal to approximately 80% of the lease payments received in consideration for management of the airport facilities.

The City has a lease agreement with Conway Regional Medical Center, Inc. whereby Conway Regional Medical Center, Inc. leases land and its primary facilities, including equipment, for \$25 per year under a lease agreement expiring in 2098. At the end of the lease term any improvements made to the related land and buildings will become property of the City.

The City has a lease agreement with the University of Central Arkansas, whereby the City leases facilities for use by the Conway Fire Department, for \$20,000 per year under a lease agreement expiring in 2013. At the end of the lease term, the City has the option to renew for three five-year terms under the same terms and conditions.

The City also has a lease agreement with another private business in which the private business leases land where its hangar is located under a lease agreement expiring in 2039. At the end of the lease term, any improvements made to the land will become property of the City.

The City has a capital lease agreement in which the City is acquiring certain energy efficiency improvements to City facilities. At December 31, 2009, improvements totaling approximately \$847,000 had been initiated and completed, which are included in depreciable capital assets in the accompanying government-wide activities statement of net assets with no accumulated depreciation recorded as of December 31, 2009, based on the date the assets were placed in service. The lease agreement requires quarterly payments through July 2023.

At December 31, 2009, future minimum lease payments receivable and payable under the City's lease and management agreements are as follows:

	<b>Operating Lease Payments Receivable</b>	<b>Management Agreement Payments Payable</b>	<b>Operating Lease Payments Payable</b>	<b>Capital Lease Payments Payable</b>
2010	\$ 71,899	\$ 22,314	\$ 20,000	\$ 56,975
2011	71,899	22,314	20,000	77,525
2012	71,899	22,314	20,000	79,436
2013	71,899	22,314	20,000	81,398
2014	71,899	22,314	—	83,408
2015-2019	359,495	112,694	—	449,046
2020-2024	359,495	113,256	—	358,671
2025-2029	359,495	113,256	—	—
2030-2034	359,495	113,256	—	—
2035-2039	324,647	124,582	—	—
2040-2098	<u>1,475</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>\$2,123,597</u>	<u>\$688,614</u>	<u>\$80,000</u>	<u>\$1,186,459</u>

## 10. LONG-TERM LIABILITIES

The following is a summary of long-term obligations of the City for the year ended December 31, 2009:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental activities:</b>					
Bonds payable	\$34,005,000	\$ —	\$(3,975,000)	\$30,030,000	\$2,700,000
Leases payable	847,463	—	(22,027)	825,436	23,858
Notes payable	811,909	3,500,000	(190,731)	4,121,178	3,698,690
Compensated absences	1,530,865	1,879,231	(1,938,241)	1,471,855	110,186
Net pension obligation	<u>3,201,014</u>	<u>57,696</u>	<u>—</u>	<u>3,258,710</u>	<u>—</u>
Governmental activity					
Long-term liabilities	<u>\$40,396,251</u>	<u>\$5,436,927</u>	<u>\$(6,125,999)</u>	<u>\$39,707,179</u>	<u>\$6,532,734</u>

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-type activities:</b>					
Compensated absences	\$ 121,132	\$203,478	\$(183,380)	\$ 141,230	\$ 6,094
Landfill closure and Postclosure costs	4,066,818	220,236		4,287,054	489,875
Net pension obligation	<u>696,316</u>	<u>—</u>	<u>(57,696)</u>	<u>638,620</u>	<u>—</u>
Business-type activity Long-term liabilities	<u>\$4,884,266</u>	<u>\$423,714</u>	<u>\$(241,076)</u>	<u>\$5,066,904</u>	<u>\$495,969</u>

The governmental activities' compensated absences and net pension obligations are generally liquidated by the general fund. Bond payments are made from the Debt Service Fund, which had a reserve balance at December 31, 2009 of \$2,315,661. The notes payable are liquidated by the Other Special Revenue Fund and Capital Projects Fund through dedicated taxes.

**2008 Electric Franchise Fee Revenue Bonds** – The City issued \$2,220,000 Electric Franchise Tax Bonds, Series 2008, which are due in semiannual installments of \$55,000 - \$95,000 plus interest at 6.25% with the final payment due January 1, 2019. The bonds were issued to finance the cost of site improvements at an industrial site. The bonds, which have an outstanding balance at December 31, 2009 of \$1,395,000, are special obligations of the City secured by and payable solely from receipts of electric franchise fees. The pledge of electric franchise fee receipts securing payment of the series 2008 bonds is subject and subordinate to the prior pledge of such receipts securing the City's outstanding Franchise Fee Revenue Improvement Bonds, Series 2006 and the City's obligations under the Franchise Fee Revenue Lease-Purchase Agreement. Electric franchise fee revenue received by the City during the year ended December 31, 2009, totaled approximately \$1,303,000.

**2007 Restaurant Gross Receipts Tax Capital Improvement Bonds** – Bonds in the amount of \$14,100,000 were issued in December 2007 to finance the acquisition, construction and equipping of certain park and trail improvements within the City and to pay the costs of issuance of the bonds. These bonds, which have an outstanding balance at December 31, 2009, of \$13,215,000, are special obligations of the City secured by and payable solely from restaurant gross receipts tax. The tax shall continue until sufficient monies are accumulated to retire the bonds. Principal payments ranging from \$470,000 to \$1,005,000 are due annually on December 1. Interest payments at 4.0% to 5.0% are due annually on December 1. Revenue pledged under this financing arrangement totaled approximately \$2,258,000 during the year ended December 31, 2009.



**2006 Franchise Fee Revenue Improvement Bonds** – The City issued \$5,100,000 Franchise Fee Revenue Improvement Bonds, Series 2006, which are due in annual installments of \$145,000 – \$185,000 plus interest at 4.00% through 2016, followed by two five-year term payments of \$1,035,000 and \$1,280,000 plus interest at 4.25%, followed by a four-year term payment of \$1,235,000 plus interest at 4.375%, with the final payment due December 1, 2030. The bonds were issued to finance the costs of acquiring, constructing, extending, and equipping certain improvements to the City's wastewater and electric systems and certain roadway infrastructure and related improvements in the Guy Murphy Industrial Park and the Meadows Technology Park. The bonds, which have an outstanding balance at December 31, 2009, of \$4,695,000, are special obligations of the City secured by and payable solely from receipts of franchise fees which are pledged for this purpose. The excess of franchise fee revenue received by the City during the year ended December 31, 2009, over debt service requirements totaled approximately \$2.8 million and is available for debt service on the lease purchase agreement, 2008 Electric Franchise Fee Revenue Bonds, and thereafter for City operations.

**2006 Sales and Use Tax Refunding Bonds and Capital Improvement Bonds** – The City issued \$9,755,000 Sales and Use Tax Refunding Bonds, Series 2006A and \$7,525,000 Sales and Use Tax Capital Improvements Bonds, Series 2006B, which are due in annual installments ranging from \$1,225,000 to \$2,285,000 plus interest at 3.55% to 3.90%. The bonds have an outstanding balance at December 31, 2009 of \$10,725,000. These bonds are special obligations of the City secured by and payable solely from receipts of the quarter cent special sales and use tax and the quarter cent general sales and use tax. The general sales and use tax shall continue until sufficient monies are accumulated to retire the bonds and cannot be used for any purpose other than payment of debt service on the bonds. The special sales and use tax shall continue until the bonds are retired and can be used to fund pay-as-you-go capital projects for the City. The taxes generated that were attributable to repayment of the bonds totaled approximately \$5,778,000 during the year ended December 31, 2009.

Annual requirements to amortize all bonds outstanding of the primary government – governmental activities as of December 31, 2009, are as follows:

<b><u>Year Ending December 31:</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2010	\$ 2,700,000	\$ 981,149	\$ 3,681,149
2011	1,985,000	879,562	2,864,562
2012	2,090,000	1,093,340	3,183,340
2013	3,030,000	1,010,190	4,040,190
2014	3,150,000	889,253	4,039,253
2015-2019	6,540,000	3,123,267	9,663,267
2020-2024	5,000,000	1,963,057	6,963,057
2025-2029	5,205,000	710,950	5,915,950
2030-2031	<u>330,000</u>	<u>14,437</u>	<u>344,437</u>
Totals	<u>\$30,030,000</u>	<u>\$10,665,205</u>	<u>\$40,695,205</u>

Notes payable includes an unsecured note for \$3,500,000 borrowed by the City from a financial institution during the year ended December 31, 2009, and included in the amount due within one year as the note is due on demand. If no demand is made, the expected amount due within one year is approximately \$641,000. The note is due in equal annual installments of approximately \$794,000 with interest at 4.37% through August 2014.

Notes payable also includes an unsecured note to a financial institution due in equal semiannual installments of approximately \$111,000 with interest at 4.13% through August 2012. The outstanding balance at December 31, 2009, of approximately \$621,000 includes the current portion due of approximately \$199,000.

**Legal Debt Limit** – The City is subject to a constitutional limitation for property tax secured bonded indebtedness equal to 20% of the total assessed value of real and personal property as determined by the last tax assessment. At December 31, 2009, the legal debt limit for the City was approximately \$178 million. The City's outstanding bonds payable debt totaling \$30,030,000 was not secured by real and personal property taxes.

**Conduit Debt Obligations** – From time to time, the City or its components have issued revenue bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Those issues are detailed as follows:

*Primary Government*

The following revenue bonds were issued for securing and developing industry within the City of Conway. The bonds are being retired by a lease-rental plan with the following corporations:

<b><u>Corporation</u></b>	<b><u>Date of Issue</u></b>	<b><u>Original Amount of Bonds Issued</u></b>	<b><u>Bonds Outstanding as of December 31, 2009</u></b>
Kimberly-Clark Corporation	Jan-96	\$ 20,000,000	\$ 20,000,000
Nucor Corporation	Dec-95	36,000,000	17,042,639
Interstate Group LLC Project	Apr-03	2,000,000	1,251,667
Kimberly-Clark Corporation	Oct-05	30,000,000	30,000,000
Hewlett-Packard Company Project	Dec-08	<u>30,500,000</u>	<u>15,562,558</u>
Totals		<u>\$118,500,000</u>	<u>\$83,856,864</u>

The bonds are special obligation bonds of the City and do not constitute an indebtedness of the City within any constitutional or statutory limitation, but are payable solely from lease-rentals of certain properties, and are secured by a statutory mortgage lien on the same. Accordingly, these bonds are not reflected on the accompanying financial statements.

#### *Component Units*

The Facilities Board has issued capital improvement revenue bonds and health care refunding revenue bonds for facilities within the City. These bonds, detailed below, are secured by the properties financed, as well as revenues and other payments and are payable solely from payments received from the private organizations benefiting from the issuance of the bonds. The facilities acquired or constructed from the bond proceeds are owned by the private organizations.

<b><u>Organization</u></b>	<b><u>Date of Issue</u></b>	<b><u>Original Amount of Bonds Issued</u></b>	<b><u>Bonds Outstanding as of December 31, 2009</u></b>
Conway Health Care Living Project	Aug-99	\$ 365,000	\$ 240,000
Conway Regional Medical Center	Dec-09	30,000,000	30,000,000
Conway Christian School Project	Dec-06	6,500,000	5,850,000
Hendrix College	Feb-05	35,160,000	31,910,000
Hendrix College	Mar-06	4,200,000	3,970,000
Hendrix College	Oct-08	23,925,000	23,375,000
UCA Foundation Project	May-05	<u>13,050,000</u>	<u>12,080,000</u>
Totals		<u>\$113,200,000</u>	<u>\$107,425,000</u>

The bonds are special obligations of the Facilities Board and do not constitute an indebtedness of the Facilities Board or the City within any constitutional or statutory limitation, but are payable solely from the revenues of the properties and organizations, and are secured by a statutory mortgage lien on the same. Accordingly, these bonds are not reflected on the accompanying financial statements.

#### *Long-Term Debt – Component Units*

The Corporation has secured all long-term debt by its future revenues. Detailed information about specific component unit debt is available in their separately issued financial statements. A summary of the component unit's debt at December 31, 2009 follows.

\$12,000,000 Water Revenue bonds, Series 2001	\$12,000,000
\$8,295,000 Water Revenue bonds, Series 2005	4,115,000
\$13,700,000 Sewer Revenue bonds, Series 1992	4,419,793
\$8,300,000 Wastewater Revenue Improvement bonds, Series 2004	5,915,000
\$12,000,000 Wastewater Revenue Improvement bonds Series 2009	<u>12,000,000</u>
Total	38,449,793
Unamortized discounts and premiums, net	22,377
Unamortized losses on bond refundings	(110,234)
Current portions	<u>(2,763,684)</u>
Total long-term debt – component unit	<u>\$35,598,252</u>

Maturities of long-term debt for years subsequent to 2009 are as follows:

<b><u>Year Ending December 31:</u></b>	<b><u>Conway Corporation</u></b>
2010	\$ 2,763,684
2011	2,828,324
2012	2,664,163
2013	2,751,247
2014	2,869,625
2015-2019	11,867,750
2020-2024	8,815,000
2025-2029	<u>3,890,000</u>
Totals	<u>\$38,449,793</u>

In conjunction with the 2001 bonds, the City was covenanted to fix and maintain water rates that shall maintain net revenues for at least 130% of the amount required to pay average annual debt service on all indebtedness of the City to which the Corporation's revenues are pledged.

## **11. CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require that the City place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for two years after certified closure at one landfill site and 30 years after certified closure at the current landfill site. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City recognizes a portion of these closure and postclosure care costs as an operating expense in each year based on landfill capacity used as of each balance sheet date. The estimated liability for landfill closure and postclosure care costs is approximately \$4,287,000 as of December 31, 2009, which is based on the complete use of the estimated capacity of one landfill site and of 62% of the estimated capacity of the landfill site currently being used.

The City will recognize the remaining estimated cost of closure and postclosure care of \$2,585,000 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2009. The City expects to close the landfill in the year 2021. Actual costs are subject to change due to inflation, deflation, changes in technology, or changes in applicable laws or regulations.

The City is required by state and federal laws and regulations to establish financial assurance for the cost of closure and postclosure care. The City Council approved the establishment of a trust fund in which annual contributions would be made, commencing in 2003, of an amount that would fund the required financial assurance amount of approximately \$3,958,000 by January 2013. The financial assurance is funded by a capital improvement sanitation surcharge that also funds sanitation capital improvements.

## **12. RELATED ORGANIZATIONS**

The City provided authority for the Housing Authority of the City of Conway, Arkansas (the "Housing Authority") to transact business in 1968. The City Council is responsible for confirmation of commissioners of the Housing Authority after nomination by the current commissioners. The City's accountability does not extend beyond such actions. The Housing Authority exists to administer Public Housing Programs as authorized by the United States Housing Act. Any assets and related debts are those of the Housing Authority and not of the City.

## **13. RELATED PARTY TRANSACTIONS**

The City has entered into lease and franchise fee agreements with the Corporation to operate City owned utilities as follows:

Water and Wastewater Departments – As consideration for operation of these departments, the City receives \$25 monthly and free water and wastewater services. The Corporation is allowed to annually withdraw \$8,000 from Water Department Funds and \$2,500 from Wastewater Department Funds plus \$1 for services rendered.

Electric Department – The Corporation operates the Electric Department for the City pursuant to an exclusive franchise agreement requiring the Corporation to assess each customer a 2.5% franchise fee on certain revenues. The Department also paid the City \$120,000 in annual rent. Amounts remitted to the City by the Electric Department totaled approximately \$1,311,000 during the year ended December 31, 2009. At the end of the lease period, the Corporation is required to return the net assets of the Electric Department to the City. Charges for electric service paid by the City to the Corporation totaled approximately \$580,000 during the year ended December 31, 2009.

Cable Television Department – The Corporation operates the Cable Television Department for the City under a lease agreement which expires December 31, 2015. The agreement requires the Corporation to pay rent of \$25,000 per month to the City reduced by 1/12 of the increase in total franchise fees paid for the preceding year. The agreement also requires the Corporation to pay the City a franchise fee of 5% of gross revenues. The Corporation paid the City approximately \$900,000 during the year ended December 31, 2009.

The City has entered into an agreement with the Corporation for collection of sanitation fees. The Corporation retains approximately 0.7% of the fees as compensation for the collection and billing services. The Corporation retained approximately \$20,000 for billing and collection services and remitted approximately \$7,374,000 to the City in gross receipts during the year ended December 31, 2009.

#### **14. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City participates in a variety of risk pools and trust funds.

##### ***General Liability Coverage, Fidelity Bond Coverage, Property and Vehicle Coverage***

The City and its component units have various insurance policies to cover their potential liability risk areas (i.e., automobile, personal property, contents and outside structures and workers' compensation). The type of coverage and the liability limits vary with each entity. Coverage is provided both commercially and through the Arkansas Municipal League ("AML"), which is an association of local governments. AML provides the City with automobile and legal defense coverage. Fixed premiums are set annually by AML based on such factors as claims experience, employee class multipliers and population. For risks covered by AML, the City pays no deductible; however, the City pays a \$3,000 fee to AML for each legal matter it handles. There have been no significant reductions in coverage from 2005 to 2009; nor have settlement amounts exceeded insurance coverage for each of the past three years.

##### ***Unemployment Insurance***

The City has opted out of paying unemployment tax and has elected a reimbursable payment option. The City makes estimated payments quarterly based upon the benefits paid to former employees on the City's behalf by the Arkansas Employment Security Department in the previous year and is then responsible for reimbursing the Arkansas Employment Security Department for benefit payments made in excess of estimates.

##### ***Workers' Compensation Coverage***

The City participates in the Municipal League Workers' Compensation Trust (the "Trust"). The Trust, established to help cities and towns meet their statutory responsibilities for on-the-job employee injuries and loss-of-time claims, processes all claims. The cost of servicing claims and payments are charged annually through premiums to participating municipalities.

## **15. CONTINGENT LIABILITIES**

### *Litigation*

The City is a party to various legal proceedings that generally involve claims of civil rights violations, liabilities, and employment issues. These proceedings are, in the opinion of the City, ordinary routine matters incidental to the normal business conducted by the City. In the opinion of the City, such proceedings are not expected to have a material adverse effect on the City's financial position, results of operations, or cash flows. However, litigation is subject to inherent uncertainties. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the City's operations in the period in which the ruling occurs. The estimate of the potential impact from the various legal proceedings on the City's financial position or overall results of operations could change in the future.

### *Federal Grants*

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

### *Claims and Judgments*

The City has potential claims and judgments in connection with the operation of the City's landfill sites which could arise from any unknown claims of violations of state and federal law and regulations during ordinary operations at the landfill sites. At December 31, 2009, there were no outstanding Consent Administrative Orders which required financial obligation on the part of the City.

## **16. FEDERAL FUNDS PROGRAM COMPLIANCE**

The Department of Transportation Federal Aviation Administration Airport Improvement Program Grant was audited in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations Federal Program* ("A-133") requirements. The Department of Housing and Urban Development Community Development Block Grant, the National Highway Traffic Safety Administration/Alcohol Traffic Safety and Drug Prevention Incentive Grant, the Department of Transportation Federal Highway Commission Planning and Construction Grant, and the Department of Homeland Security Staffing for Adequate Fire and Emergency Response Grant did not meet the minimal threshold to be audited in accordance with A-133.

## 17. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2009, the City restated its previously issued 2008 financial statements to reflect an adjustment to accrue additional sales taxes receivable. This adjustment increased previously reported net assets and fund balance by \$2,018,475 as follows:

### Government-Wide Statements

	<u>Net Assets</u>
As previously reported, as of December 31, 2008	\$117,046,265
To accrue additional receivable for sales tax	<u>2,018,745</u>
As restated, as of December 31, 2008	<u>\$119,065,010</u>

### Governmental Fund Statements

	<u>Fund Balance</u>
As previously reported, as of December 31, 2008	\$29,892,216
To accrue additional receivable for sales tax	<u>2,018,745</u>
As restated, as of December 31, 2008	<u>\$31,910,961</u>



## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Conway, Arkansas**

**Required Supplementary Schedule of Employer Contributions (Unaudited)**  
**Defined Benefit Pension Plans**

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	<b>Year Ended December 31</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
Firemen's Pension and Relief Fund	2008	\$ 634,057	81%
	2006	763,482	n/a
	2004	335,927	n/a
	2002	268,554	n/a
	2000	60,992	n/a
	1998	324,564	n/a
Policemen's Pension and Relief Fund	2008	\$ 95,857	461%
	2007	250,406	100%
	2005	519,730	60%
	2003	176,085	n/a
	2001	409,997	n/a
	1999	497,819	n/a
Nonuniformed Employees' Pension and Relief Plan	2008	\$ 972,432	82%
	2006	915,910	67%
	2005	911,792	68%
	2004	830,340	69%
	2003	830,340	64%
	2002	735,888	67%
	2001	619,018	70%
Local Police and Fire Retirement Plan - Paid Service Fire	2009	\$ 752,921	100%
	2008	728,493	100%
	2007	689,763	100%
	2006	610,518	100%
	2005	437,243	100%
	2004	383,695	101%
	2003	214,653	100%
Local Police and Fire Retirement Plan - Paid Service Police	2009	\$ 1,130,046	100%
	2008	1,016,737	100%
	2007	898,824	100%
	2006	804,967	104%
	2005	625,181	100%
	2004	618,695	100%
	2003	403,339	100%
	2002	425,899	100%
	2001	355,571	100%

# CITY OF CONWAY, ARKANSAS

## REQUIRED SUPPLEMENTARY SCHEDULE OF FUNDING PROGRESS (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a	Employer Contribution
						Percentage of Covered Payroll ((b - a)/c)	
NON-UNIFORMED EMPLOYEE'S PENSION AND RELIEF PLAN							
12/31/2008	\$6,261,361	\$18,321,174	\$12,059,813	34%	\$7,676,664	157%	\$794,465
12/31/2006	5,664,729	14,884,132	9,219,403	38%	6,521,226	141%	613,006
12/31/2005	5,110,865	13,889,207	8,778,342	37%	6,006,189	146%	622,696
12/31/2004	4,740,232	13,521,130	8,780,898	35%	5,801,874	151%	570,322
12/31/2002	3,184,350	11,333,142	8,148,792	28%	4,969,272	164%	499,790
12/31/2001	3,539,774	9,805,720	6,265,946	36%	4,744,585	132%	430,879

## **LOCAL POLICE AND FIRE RETIREMENT PLAN**

### Paid Service Fire:

12/31/2009	\$11,785,864	\$15,454,785	\$3,668,921	76%	\$4,395,550	83%	\$752,921
12/31/2008	11,110,928	14,618,792	3,507,864	76%	4,160,535	84%	728,493
12/31/2007	9,924,278	11,673,364	1,749,086	85%	3,942,145	44%	689,763
12/31/2006	8,036,286	9,587,819	1,551,533	84%	3,473,225	45%	610,518
12/31/2005	6,563,815	8,300,181	1,736,366	79%	3,328,875	52%	437,243
12/31/2004	5,407,112	7,157,017	1,749,905	76%	3,066,603	57%	383,695

### Paid Service Police:

12/31/2009	\$4,986,828	\$15,001,328	\$10,014,500	33%	\$5,238,797	191%	\$1,130,046
12/31/2008	5,437,676	13,391,416	7,953,740	41%	4,771,215	167%	1,016,737
12/31/2007	4,233,277	10,094,101	5,860,824	42%	4,362,849	134%	898,824
12/31/2006	4,580,236	10,075,594	5,495,358	45%	5,495,358	137%	804,967
12/31/2005	5,024,904	9,633,073	4,608,169	52%	3,873,638	119%	625,181
12/31/2004	4,928,694	8,702,640	3,773,946	57%	3,962,929	95%	618,695

**City of Conway, Arkansas****Required Supplementary Schedule of Revenues and Expenditures -  
General Fund  
Budget to Actual, Year Ended December 31, 2009**

				Variance with Final Budget - Positive (Negative)
Revenues	Original	Final	Actual	
General property taxes	\$ 1,421,688	\$ 1,421,688	\$ 1,481,035	\$ 59,347
Sales taxes	14,962,140	14,962,140	14,225,848	(736,292)
Licenses and permits	478,500	497,429	1,119,392	621,963
Intergovernmental	1,187,000	4,302,317	3,159,007	(1,143,310)
Fines & fees	1,828,500	1,828,500	707,290	(1,121,210)
Franchise fees	3,288,874	3,288,874	3,082,796	(206,078)
Investment income and unrealized gains, net	125,000	125,000	61,200	(63,800)
Miscellaneous	460,000	4,197,131	1,699,449	(2,497,682)
Total revenues	23,751,702	30,623,079	25,536,017	(5,087,062)
Expenditures				
General government				
General administration	3,653,891	4,416,958	3,813,767	603,191
Airport	25,500	2,189,066	28,017	2,161,049
Fire	7,171,286	7,313,262	7,262,418	50,844
Parks and recreation	2,353,557	2,489,208	2,006,616	482,592
Law enforcement	10,387,921	10,752,005	11,301,197	(549,192)
Capital Outlay				
General administration	449,347	824,371	358,705	465,666
Airport	-	650,307	1,181,809	(531,502)
Fire	80,200	354,943	331,862	23,081
Parks and recreation	-	312,175	287,760	24,415
Law enforcement	-	220,227	229,491	(9,264)
Total general government expenditures	24,121,702	29,522,522	26,801,642	2,720,880
Excess (deficiency) of Revenues over Expenditures	(370,000)	1,100,557	(1,265,625)	(2,366,182)
Other Financing Sources (Uses)				
Transfers in	370,000	2,594,619	628,123	(1,966,496)
Transfers out	-	(3,759,750)	(1,605,417)	2,154,333
Total other financing uses	370,000	(1,165,131)	(977,294)	187,837
Net Change in Fund Balances	\$ -	\$ (64,574)	\$ (2,242,919)	\$ (2,178,345)

**City of Conway, Arkansas****Required Supplementary Schedule of Revenues and Expenditures -  
Street Fund  
Budget to Actual, Year Ended December 31, 2009**

				Variance with Final Budget - Positive (Negative)
Revenues	Original	Final	Actual	
Taxes	\$ 3,872,494	\$ 3,875,697	\$ 3,802,563	\$ (73,134)
Licenses and permits	11,500	11,500	720	(10,780)
Intergovernmental	-	-	383,255	383,255
Fines & Fees	-	-	67,300	67,300
Franchise fees	15,000	15,000	7,746	(7,254)
Investment income and unrealized gains, net	35,000	35,000	31,669	(3,331)
Miscellaneous	16,000	17,800	137,597	119,797
Total revenues	3,949,994	3,954,997	4,430,850	475,853
Expenditures				
Highways and streets	3,719,994	5,425,955	3,313,113	2,112,842
Capital outlay - highways and streets	230,000	1,603,684	1,015,330	588,354
Total expenditures	3,949,994	7,029,639	4,328,443	2,701,196
Excess (deficiency) of Revenues over Expenditures	-	(3,074,642)	102,407	3,177,049
Other Financing Sources				
Transfers in	-	3,074,642	2,298,084	(776,558)
Transfers out	-	-	(594,788)	(594,788)
Total other financing sources (uses), net	-	3,074,642	1,703,296	(1,371,346)
Net Change in Fund Balances	\$ -	\$ -	\$ 1,805,703	\$ 1,805,703

**City of Conway, Arkansas****Required Supplementary Schedule of Revenues and Expenditures -  
Other Special Revenue Fund  
Budget to Actual, Year Ended December 31, 2009**

				Variance with Final Budget - Positive (Negative)
Revenues	Original	Final	Actual	
General property taxes	\$ 37,000	\$ 37,000	\$ 33,113	\$ (3,887)
Sales taxes	1,080,071	1,080,071	2,257,809	1,177,738
Charges for services	1,823,520	2,154,020	1,524,537	(629,483)
Fines & fees	70,000	70,000	70,088	88
Investment income and unrealized gains, net	-	-	24,379	24,379
Miscellaneous	-	1,342,255	-	(1,342,255)
Total revenues	3,010,591	4,683,346	3,909,926	(773,420)
Expenditures				
General government				
Highways and streets	1,436,663	1,435,663	-	1,435,663
Parks and recreation	1,269,614	39,919	18,658	21,261
Law enforcement	82,000	73,464	-	73,464
Debt Service - principal				
Principal	190,731	190,731	190,731	-
Interest	31,583	31,583	31,583	-
Capital outlay				
Parks and recreation	-	-	39,857	(39,857)
Law enforcement	-	-	10,810	(10,810)
Total expenditures	3,010,591	1,771,360	291,639	1,479,721
Excess of revenues over expenditures	-	2,911,986	3,618,287	706,301
Other Financing Uses				
Issuance of debt	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	(2,911,986)	(3,492,457)	(580,471)
Total other financing sources	-	(2,911,986)	(3,492,457)	(580,471)
Net Change in Fund Balances	\$ -	\$ -	\$ 125,830	\$ 125,830

## **CITY OF CONWAY, ARKANSAS**

### **NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL, DECEMBER 31, 2009**

#### **Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (“GAAP”) for the General Fund, the Street Fund, and the Other Special Revenue Fund. The General Purpose Financial Statements show the status of the City’s finances on the GAAP basis. In most cases, this conforms to the way the City prepares its budget. Exceptions are as follows:

- Compensated absences that are expected to be liquidated with expendable available financial resources are accrued as earned by employees (GAAP), as opposed to being expended when paid (budget).
- Principal payments on long-term debt are applied to the outstanding liability on a GAAP basis, as opposed to being expended on a budget basis.
- Depreciation expense is recorded on a GAAP basis only.

Budgeted revenues and expenditures represent the formal operating budget adopted by the City Council, as amended by the Council during the year. Budgetary control is maintained at the departmental level. Budgeted amounts not spent by year-end lapse in personnel services and operating accounts. Amounts for capital projects that are underway but not finished may be rolled forward to the following year if requested by the department head. Expenditures greater than budgeted amounts must be approved by Council voting to amend the budget. Individual amendments are typically not material in relation to the original appropriations. Department heads have the authority to submit a budget adjustment request to the Finance Department for approval if the adjustment is within a budget category and is within their approved total for the category. The Chief Financial Officer may present the request to the Mayor if the request seems unusual or noteworthy. The Mayor may choose to take any request to the City Council if it is one that may be unusual or highly visible. All budget transfers are documented by the Budget Analyst and tracked in the City’s computerized financial system.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the funds.

All annual appropriations lapse at year-end.

## **OTHER REPORTS**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Conway, Arkansas, (the "City") as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 21, 2010. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Conway Corporation or the City of Conway Advertising and Promotion Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2009-1 that we consider to be material weaknesses in internal control over financial reporting.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2009-2.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, federal awarding agencies, and the Committee of Counties and Municipalities of the Legislative Joint Audit Committee, and is not intended to be and should not be used by anyone other than those specified parties.

*JEFFREY, PHILLIPS, MOSLEY & SCOTT, P.A.*

October 21, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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**To the Honorable Mayor and  
Members of the City Council  
City of Conway, Arkansas:**

***Compliance***

We have audited the compliance of the City of Conway, Arkansas (the "City") with the types of compliance requirements described in the *U. S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2009. The City's major federal program is identified in the summary of independent auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2009-2 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements that are applicable to its major federal program regarding reporting, activities allowed or unallowed, cash management, procurement and suspension and debarment, and real property acquisition and relocation assistance. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2009.

### ***Internal Control Over Compliance***

Management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2009-2 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City management, federal awarding agencies, and the Committee of Counties and Municipalities of the Legislative Joint Audit Committee, and is not intended to be and should not be used by anyone other than these specified parties.

*JEFFREY, PHILLIPS, MOSLEY & SCOTT, P.A.*

October 21, 2010

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

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<b>Federal Grantor/Pass Through Grantor Program Title</b>	<b><u>CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
Department of Housing and Urban Development Community Development Block Grant	14.218	\$ 161,651
National Highway Traffic Safety Administration Alcohol Traffic Safety & Drug Prevention Incentive Grant/State of Arkansas	20.601	31,670
U.S. Department of Transportation/ Federal Aviation Administration/ Airport Improvement Program	20.106	1,253,507
U.S. Department of Transportation/ Federal Highway Commission / Arkansas State Highway and Transportation Department/ Planning and Construction Grant	20.205	263,452
Department of Homeland Security/FEMA/ National Preparedness Branch/Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	<u>14,493</u>
Total Federal Awards Expended		<u><u>\$1,724,773</u></u>

## **CITY OF CONWAY, ARKANSAS**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED DECEMBER 31, 2009**

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#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** – The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** **FOR THE YEAR ENDED DECEMBER 31, 2009**

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#### **I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

##### **Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered  
to be material weaknesses? No

Noncompliance material to financial statements noted? No

##### **Federal Awards**

Internal control over major programs:

Material weakness(es) identified? Yes

Significant deficiency(ies) identified that are not considered  
to be material weakness(es)? No

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported  
in accordance with section 510(a) of Circular A-133? Yes

Identification of major programs:

CFDA Number

Name of Federal Programs

20.106

U.S. Department of Transportation/Federal Aviation  
Administration/Airport Improvement Program

Dollar threshold used to distinguish between type A and  
type B programs: \$300,000

Auditee qualified as low-risk auditee? No

## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2009 (continued)**

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#### **II. FINANCIAL STATEMENT FINDINGS**

##### **FINDING NO. 2009-01:**

*Statement of Condition:* The City's internal control systems for accounting, reconciliations, and financial reporting were not adequate to result in accurate and timely internal financial records throughout the year and required a significant number of adjusting entries to be proposed in connection with the year-end audit.

*Criteria:* An effective internal control structure must include accurate processing of accounting transactions, timely and accurate reconciliation of general ledger accounts, independent review of such reconciliations, and timely and accurate completion of the periodic and annual accrual basis financial statements.

*Effect:* As a result of the above conditions, periodic internal financial statements were not prepared timely or accurately on an accrual basis for the use of management and the City Council.

*Cause:* The conditions noted above were caused by informal systems for preparation and review of reconciliations of account balances underlying the internal accounting records. Contributing to the conditions noted above was the timing of turnover in a key position within the finance function of the City. Additionally, departmental responsibilities were not well defined or communicated leading to gaps in some reconciliations.

*Recommendation:* Specific areas where improvement could be achieved in the completion and review procedures included timely reconciliation of bank accounts, accounts receivable, capital assets, accounts payable, accrued liabilities, interfund accounts, as well as specific review of the timing of monthly cut-off of accrual based transactions and rolling forward of fund balance. In addition, the process for creation and review of manual journal entries and related underlying support should be formalized. As discussed in connection with our prior year audit, we recommend that management develop a tracking system for key monthly and annual closing procedures which includes both accounting tasks to be performed as well as review responsibility to insure that each task has been performed. The development of this tracking system could be used by the Interim CFO as a training tool for other members of finance management.

*Management's Response:* Management has reviewed and is currently upgrading all internal procedures for preparation and processing of accounting transactions and reconciliation and review of all account balances. Reconciliation of general fund bank balances were current throughout 2009. All bank accounts are reconciled through September 2010. Having recognized the need for a more sophisticated accounting processes, the City purchased, and management is in process of implementing a completely new computerized accounting system which will lend itself to more timely and comprehensive financial reporting. Policy manuals are in the process of being updated to address specific accounting and internal control processes.



## **CITY OF CONWAY, ARKANSAS**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2009 (continued)**

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#### **III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

FINDING NO. 2009-02:

*Statement of Condition:* The Schedule of Expenditures of Federal Awards was inaccurate with respect to certain Federal Aviation Administration (“FAA”) expenditure amounts due to adjustments being necessary to the City’s records, and was incomplete due to the exclusion of Federal Highway Administration expenditure amounts, when presented for audit.

We noted certain cases where the City’s accounting processes for its federal award were not followed. We noted three cases where invoices were paid without an approved purchase order or with a purchase order approved by only one of two required individuals. We noted one instance where a vendor invoice was paid twice in error and one instance where an invoice was paid beyond the 72 hour from reimbursement draw requirement.

We noted instances where certain quarterly reports were not filed with the FAA. This occurred in one instance because the report had been completed by an outside engineering consultant who provided the report to City personnel but the report was then not forwarded to the FAA and in another instance due to City personnel not being aware that the outside engineering consultant had not filed the report on the City’s behalf.

The City did not meet certain compliance requirements related to its federal funding. The City’s Procurement Policy/Manual does not incorporate federal requirements related to government wide debarment and suspension, Conflict of Interest statements are not obtained from individuals responsible for procurement and certain individuals from whom land was purchased were paid relocation fees while the City’s grant application stated that the assistance requested would not cause displacement of individuals.

*Criteria:* The receipt of federal funding is accompanied by compliance and reporting requirements specific to the funding received and as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

*Effect:* Noncompliance with requirements of federal funding could result in delays in receipt of such funding and in reductions or loss of future funding.

*Cause:* The conditions were caused by the inadequate systems for preparation and review of reconciliations of account balances underlying the internal accounting records. Contributing to the conditions noted above was the timing of turnover in a key position within the finance function of the City. In addition, the City placed overreliance on outside engineering consultants without adequate communication and oversight by City personnel responsible for compliance, accounting, and reporting for federal receipts and expenditures.

*Recommendation:* City personnel should take full responsibility for all aspects of compliance, accounting, and reporting for receipt and expenditure of federal funds. In addition, all aspects of the recommendations above related to the City's financial statements should be implemented as they apply to the City's federal funding receipts and expenditures.

*Management's Response:* As noted above, management has reviewed and is currently upgrading all internal procedures for preparation and processing of accounting transactions and reconciliation and review of all of all account balances. Having recognized the need for a more sophisticated accounting processes, the City purchased, and management is in process of implementing a completely new computerized accounting system which will lend itself to more timely and comprehensive financial reporting. Policy manuals are in the process of being updated to address specific compliance requirements. In addition, all federal funding requirements will be communicated to key personnel within the City's management.